



REPUBLIC OF KOREA

November 2025

2025 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR REPUBLIC OF KOREA

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2025 Article IV consultation with the Republic of Korea, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its November 19, 2025 consideration of the staff report that concluded the Article IV consultation with Republic of Korea.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on November 19, 2025, following discussions that ended on September 24, 2025, with the officials of the Republic of Korea on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on October 31, 2025.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for the Republic of Korea.

The documents listed below have been or will be separately released.

Selected Issues

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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Washington, D.C.



IMF Executive Board Concludes 2025 Article IV Consultation with Republic of Korea

FOR IMMEDIATE RELEASE

Washington, DC – November 24, 2025: The Executive Board of the International Monetary Fund (IMF) completed the Article IV Consultation for Republic of Korea.¹ The authorities have consented to the publication of the Staff Report prepared for this consultation.²

Prolonged domestic political and global trade policy uncertainties have weighed on near-term growth. While growth has slowed, inflation remains close to the target, and financial stability risks remain manageable. With sufficient policy space, the authorities are implementing measures to stimulate the economy while tightening macroprudential policies to address housing market pressures.

Growth is projected at 0.9 percent in 2025, as private consumption begins to recover in 2025H2, supported by more accommodative fiscal and monetary policies and easing domestic political uncertainty. Growth is expected to rebound to 1.8 percent in 2026, driven by easing uncertainties, the full impact of accommodative policies, and base effects. The negative output gap is projected to gradually close starting 2026 as domestic demand strengthens and exports recover amid easing global trade policy uncertainty. Inflation is expected to remain close to the Bank of Korea's target of 2 percent. The current account surplus is projected to decrease in the near term, as higher effective U.S. tariffs weigh on Korean exports despite import compression and some export reallocation. In the medium term, it is expected to improve, driven by a gradual recovery in exports and stronger primary income.

Uncertainty around the outlook remains high and risks remain tilted to the downside. Downside risks stem from prolonged trade policy uncertainty, intensification of geopolitical tensions, greater financial market volatility that could lead to tighter financial conditions, higher global commodity price volatility and a slowdown of the domestic semiconductor sector.

¹ Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

² Under the IMF's Articles of Agreement, publication of documents that pertain to member countries is voluntary and requires the member consent. The staff report will be shortly published on the www.imf.org/Korea page.

Executive Board Assessment³

Executive commended Korea's economic resilience in the face of domestic and external shocks, supported by the country's solid macroeconomic fundamentals and the authorities' skillful policy management. While the outlook is positive, Directors noted that uncertainty remains high. Against this backdrop, they concurred that, in the near term, an accommodative policy mix is appropriate to support the cyclical recovery. To tackle longer-term challenges, Directors underscored that advancing structural reforms remains critical to revitalize domestic demand, enhance external resilience, and boost potential growth.

Directors agreed with the ongoing monetary policy easing, which is supporting domestic demand, while underscoring the need to maintain price stability. In this vein, they emphasized that monetary policy should remain agile, well communicated, and data-dependent given the high uncertainty. Directors concurred that foreign exchange interventions should remain limited to preventing disorderly market conditions.

Directors welcomed the authorities' current fiscal accommodation given the negative output gap, with a few Directors noting that a stronger countercyclical fiscal response may be needed to boost domestic demand. Given long-term aging-related spending pressures, Directors emphasized the importance of resuming fiscal consolidation as growth returns to potential. They also encouraged the authorities to expedite structural fiscal reforms—particularly on taxation, spending efficiency, and pensions—and to adopt a medium-term fiscal anchor to safeguard long-term fiscal sustainability.

Directors agreed that the financial sector remains broadly sound and commended the authorities for proactively addressing financial vulnerabilities in the real estate sector. They called for continued monitoring, particularly of risks related to project financing and asset quality in non-bank financial institutions. Directors welcomed recent macroprudential tightening measures to curb housing market pressures and recommended further actions, including expediting plans to increase housing supply. They also encouraged continued reduction in regulatory gaps.

Directors emphasized the need for comprehensive reforms to boost domestic demand and reduce external demand vulnerabilities. They broadly recommended reducing labor market duality and rigidity as well as mitigating aging-related declines in domestic demand. Directors encouraged further diversifying exports, including through targeted support to innovative service startups and deeper trade integration.

Directors underscored that structural reforms are crucial to boost productivity and lift potential growth. They welcomed the authorities' Economic Growth Strategy and recommended tackling the productivity gap between large and small firms, streamlining regulation, sustaining innovation, and harnessing artificial intelligence. Directors welcomed the authorities' ongoing reforms to further improve capital allocation.

³ At the conclusion of the discussion, the First Deputy Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: <http://www.IMF.org/external/np/sec/misc/qualifiers.htm>.

Korea: Selected Economic Indicators, 2023 - 2026				
	2023	2024	Projections	
			2025	2026
Real GDP (percent change)	1.6	2.0	0.9	1.8
Total domestic demand	1.4	0.2	0.1	1.4
Final domestic demand	1.3	0.7	0.3	1.4
Consumption	2.0	1.4	1.5	1.6
Gross fixed investment	-0.2	-0.8	-2.6	0.9
Stock building 1/	0.1	-0.5	0.0	0.0
Net foreign balance 1/	0.3	1.7	0.5	0.6
Nominal GDP (in trillions of won)	2,409	2,557	2,611	2,666
Saving and investment (in percent of GDP)				
Gross national saving	33.5	35.3	34.4	33.6
Gross domestic investment	31.9	30.0	29.6	29.7
Current account balance	1.8	5.3	4.8	3.9
Prices (percent change)				
CPI inflation (end of period)	3.2	1.9	1.9	1.9
CPI inflation (average)	3.6	2.3	2.0	1.8
Core inflation (average)	3.4	2.2	1.9	1.9
GDP deflator	2.0	4.1	1.2	0.3
Real effective exchange rate	2.2	-2.2	...	...
Trade (percent change)				
Export volume	1.1	5.5	2.9	2.2
Import volume	-4.0	-0.5	0.6	1.2
Consolidated central government (in percent of GDP)				
Revenue	22.4	21.8	22.6	23.2
Expenditure	23.1	22.5	24.1	24.6
Net lending (+) / borrowing (-)	-0.7	-0.8	-1.5	-1.4
Overall balance	-1.5	-1.7	-2.4	-2.3
Excluding Social Security Funds	-3.6	-4.1	-4.5	-4.3
Central government debt	45.4	44.6	48.2	51.5
Money and credit (end of period)				
Overnight call rate	3.9	3.3	...	...
Three-year AA- corporate bond yield	3.9	3.3	...	...
M3 growth	4.2	6.1	...	...
Balance of payments (in billions of U.S. dollars)				
Exports, f.o.b.	643.6	696.2	680.4	678.3
Imports, f.o.b.	605.9	596.1	585.7	602.8
Current account balance	32.8	99.0	89.3	75.9
Gross international reserves (end of period) 2/	415.4	410.8	418.6	442.2
In percent of short-term debt (residual maturity)	213.3	205.6	207.5	216.9
External debt				
Total external debt (in percent of GDP)	36.7	35.9	38.0	39.6
Sources: Korean authorities; and IMF staff estimates and projections.				
1/ Contribution to GDP growth.				
2/ Excludes gold.				



REPUBLIC OF KOREA

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION

October 31, 2025

KEY ISSUES

Context. Prolonged domestic political and global trade policy uncertainties have weighed on economic activity since late 2024. While growth has slowed, inflation remains close to the target, and financial stability risks remain manageable. With sufficient policy space, the authorities have adopted a more accommodative macroeconomic policy stance in 2025. Key medium-term challenges include boosting the growth potential amid rapid population aging, strengthening demand amid global uncertainty, and building long-term resilience. The new administration's Economic Growth Strategy aims to achieve technology-driven, fair, and sustainable growth, with a goal to raise potential growth to 3 percent.

Key Policy Recommendations. With output below potential, supporting aggregate demand while reducing vulnerabilities remains immediate policy priorities. Medium-term policies should focus on revitalizing demand, boosting growth potential, and enhancing resilience amid heightened global uncertainty.

- **Supporting growth and reducing vulnerabilities.** The mix of accommodative monetary and fiscal policy, supported by targeted financial policies, will support domestic demand while preserving macroeconomic stability. If downside risks materialize, some additional monetary and fiscal accommodation could be considered.
- **Revitalizing demand amid global uncertainty.** Besides cyclical policies, policies to support a reduction in household debt, reduce labor market duality, and tackle demographic headwinds would address structural factors holding back domestic consumption. Boosting innovation, promoting service exports, and diversifying export destinations and supply chains would strengthen external resilience.
- **Boosting potential growth and building long-term resilience.** Reforms to boost productivity in the services sector—particularly among small and medium enterprises, harnessing AI-driven productivity gains, and improving capital allocation would help raise potential growth. Fiscal reforms, including pension reforms, increasing revenue mobilization, prioritizing spending, and adopting a credible fiscal anchor would help safeguard long-term fiscal sustainability.

Approved By
Thomas F. Helbling
(APD), Daria
Zakharova (SPR)

Mission discussions with officials took place in Seoul and Sejong during September 11–24, 2025. The mission team comprised of Rahul Anand (Head), Yukun Ding, Matteo Ghilardi, Fabien Gonguet, Hyeryoun Kim, and Hoda Selim (all APD). Jaewoo Oh (OED) and Corinne Delechat (APD) also joined some meetings. Tommy Lee, Madelen Conde Panesso and Judee Yanzon (all APD) provided excellent support from HQ.

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CONTEXT

1. Accommodative policies are helping address the economic slowdown caused by increased domestic political and global trade policy uncertainties. The economic fallout from political uncertainty since late 2024 has been more pronounced than anticipated, resulting in subdued private consumption and weaker investment confidence. While growth has slowed, inflation remains close to the target and financial stability risks remain manageable. With sufficient policy space, the authorities have adopted more accommodative macroeconomic policies. The authorities' policies since the 2024 AIV consultation have been broadly consistent with staff's policy recommendations (Annex I).

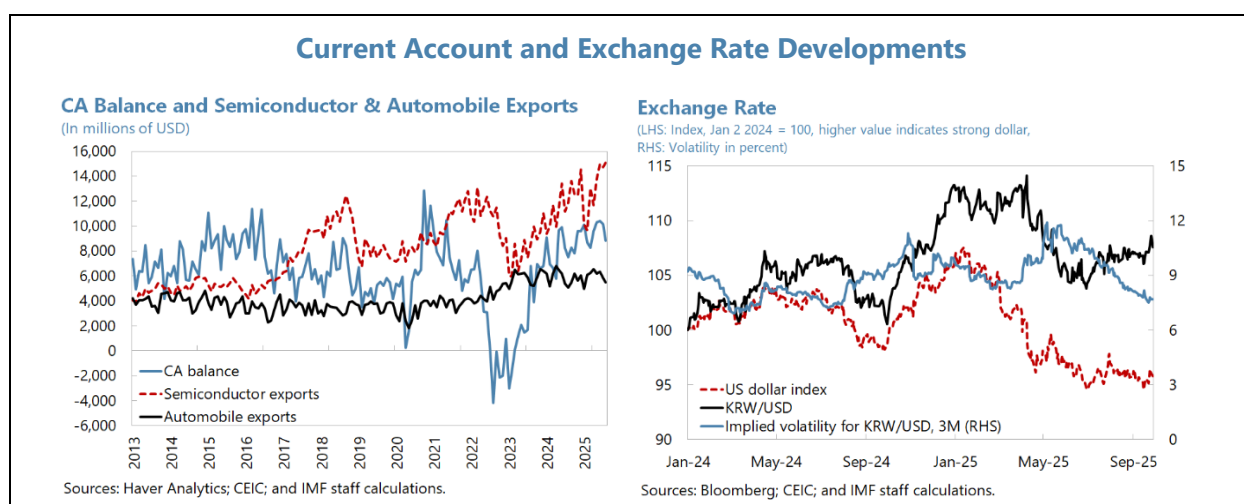
2. Accelerating structural reforms remains crucial for raising the growth potential and building resilience. While accommodative policies will support near-term growth, achieving the administration's 3 percent potential growth target would require advancing structural reforms. Priorities are raising productivity, addressing demographic headwinds, and improving capital allocation. Addressing structural impediments to stronger domestic demand and reducing export-related vulnerabilities remain crucial to build resilience. The authorities' structural reforms agenda will be guided by the recently announced Economic Growth Strategy (EGS) (Annex II). With the president's party holding parliamentary majority, the implementation of long-standing structural reform plans is expected to accelerate.

RECENT DEVELOPMENTS

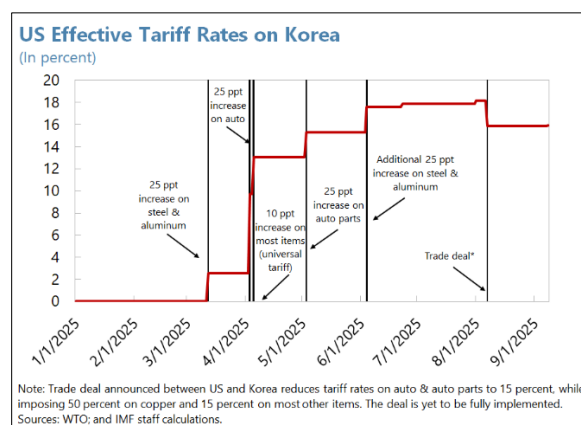
3. The Korean economy is slowing, with inflation remaining close to the target. After reaching 2 percent in 2024, growth slowed due to domestic political and global trade policy uncertainty, resulting in a worse-than-expected 2025Q1 outturn of -0.2 percent (q/q), driven by subdued private consumption and declining investments. Improved post-election consumer sentiment and more accommodative policies lifted 2025Q2 growth to 0.7 percent (q/q). Net exports continued to support growth in 2025H1, with a slowdown in export growth offset by import compression (₩4). Both headline and core inflation stayed close to the 2 percent target, reaching 2.1 and 2 percent y/y respectively in September 2025, with the effects of subdued consumption offsetting pressures from food prices and a one-off increase in university tuition. The Bank of Korea (BoK) began an easing cycle in October 2024, cutting the policy rate by 100 basis points in total to 2.5 percent as of May 2025. Short-term inflation expectations have continued to decline, and medium-term expectations remain well-anchored. The policy rate is currently around the midpoint of the neutral rate range, as estimated by BoK research.¹ Wage inflation has remained moderate amid a softening labor market since late 2024. The minimum wage increase for 2026 has been set at 2.9 percent.

¹ Do K., J.H. Ahn, H.R. Jung (2024). "Exploring the Natural Interest Rate in Korea: A Multi-Model Approach." Bank of Korea Working Paper No. 2024-13. The estimated range of the real neutral interest rate (as of 2024-Q1) is -0.2 to 1.3 percent.

4. Exports remained flat in 2025H1, reflecting higher effective tariffs and elevated trade policy uncertainty. Semiconductor export volumes remained strong, supported by sustained high demand for high-end chips, large preorders and preemptive stockpiling of legacy chips, offsetting declines in other items. Automobile exports (both volumes and prices) declined slightly, with a sharp fall in shipments to the U.S., largely offset by increases in exports to other destinations and of some segments. Imports declined by 0.5 percent (y/y) up to 2025Q3, as increased imports of capital and consumer goods were outweighed by the impact of lower raw material prices. Export growth in 2025Q3 has picked up, primarily driven by robust semiconductor exports. The external position in 2024 was broadly in line with the level implied by medium-term fundamentals and desirable policies (Annex III). After sharply depreciating against the U.S. dollar (US\$) in 2024Q4 and 2025Q1, partly due to political uncertainty and increasing domestic investors' overseas investment, the Korean Won (KRW) recovered to pre-martial law levels by end-May. In 2025, the real effective exchange rate depreciated by 4.4 percent through August 2025 relative to 2024. To address excessive FX market volatility, the authorities intervened in the spot market with net sales of US\$3.8 billion in 2025H1.

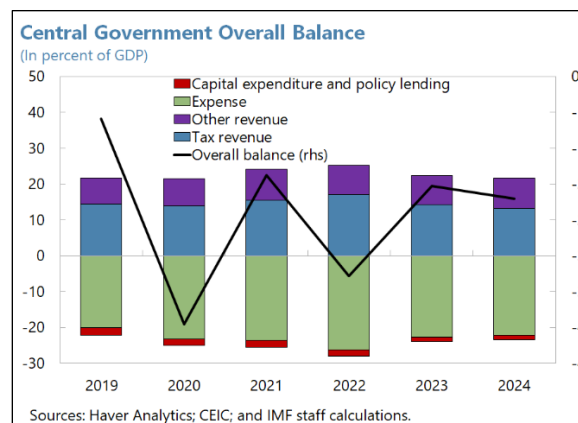


5. In July 2025, Korea reached a trade agreement with the U.S., one of its top trading partners. Under the deal, the U.S. imposed a 15 percent tariff on most U.S. imports from Korea—up from near zero for most products, and comparable to those applied to imports from the European Union and Japan—while maintaining 50 percent tariffs on steel, aluminum, and copper, raising the effective U.S. tariff rate on Korean imports to 15.9 percent, as estimated by IMF staff based on WTO data. Parts of the deal, including investments



of US\$350 billion in the U.S. and purchases of US\$100 billion worth of LNG and other energy products, remain under discussion.²

6. Fiscal policy is shifting to a more expansionary stance to support the economy. Two stimulus packages totaling KRW 30 trillion (1.2 percent of GDP) were approved in May and July 2025, focusing on growth and livelihoods, with the second including a temporary, progressive universal cash transfer program (0.5 percent of GDP).³ Notwithstanding an improvement in tax revenue in 2025H1 (to 7.3 from 7 percent of GDP last year), primarily due to the lagged impact of strong corporate profitability in 2024, slower growth is expected to reduce 2025 tax revenues by 0.4 percent of GDP compared to the budget. As a result, the central government deficit is projected to widen to 2.4 percent in 2025, with a managed deficit of 4.5 percent and a cyclically adjusted primary deficit of 1.3 percent (against 0.3 percent before the stimulus). The 2026 draft budget, submitted to the National Assembly, projects a fiscal deficit of 2 percent of GDP and a managed deficit of 4.0 percent of GDP. Consistent with the EGS, it allocates 2.6 percent of GDP to the ultra-innovative economy initiative and 1.3 percent of GDP to R&D in high-tech sectors. Selective cuts in non-core, low-performing spending programs (1 percent of GDP) and an increase in tax and non-tax revenues (0.8 percent of GDP) are expected to keep the deficit below 3 percent of GDP.⁴



7. Pockets of financial sector vulnerabilities are being addressed proactively. Overall, the financial sector remains sound, given large capital buffers, tight prudential requirements, and the authorities' readiness to intervene promptly (¶17). Accommodative financial conditions, monetary easing, and targeted financial policy response have kept the following risks manageable:

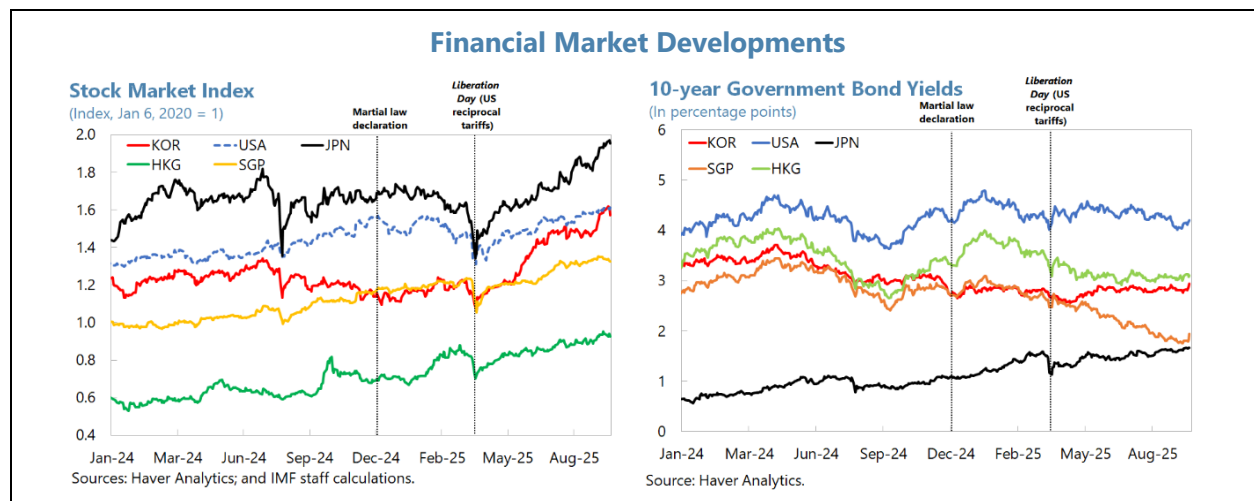
- **Financial market** volatility surged in March and April 2025, triggered by global trade shocks and domestic political developments. However, the impact was short-lived and contained, thanks to preemptive announcements of liquidity support and more accommodative macroeconomic policies. Equity markets rallied following the June elections, with the Korea Composite Stock

² Depending on the design and details of the final trade deal including the amount of investment outflows, financing structure (e.g. direct investments, loans, credit guarantees), funding sources and timeline, these outflows may have implications for Korea's growth and balance of payments.

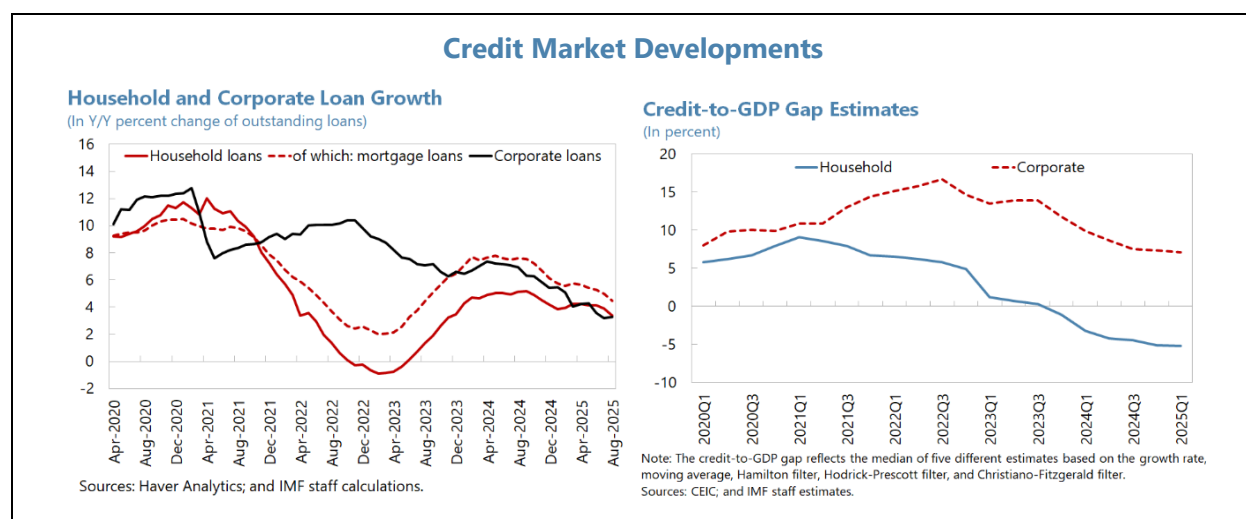
³ The net additional spending is only KRW 30 trillion relative the approved budget. The supplementary budgets also include downward revisions to revenue forecasts (by KRW 10.3 trillion) to reflect the cyclical downturn and spending reallocations (of about KRW 5 trillion), bringing the total changes to KRW 45 trillion (1.6 percent of GDP).

⁴ New tax measures include increasing the corporate tax rates for all brackets by one percentage point, aligning them with 2022 rates.

Index (KOSPI) setting a record high, supported by new policies to address the Korea discount (134).



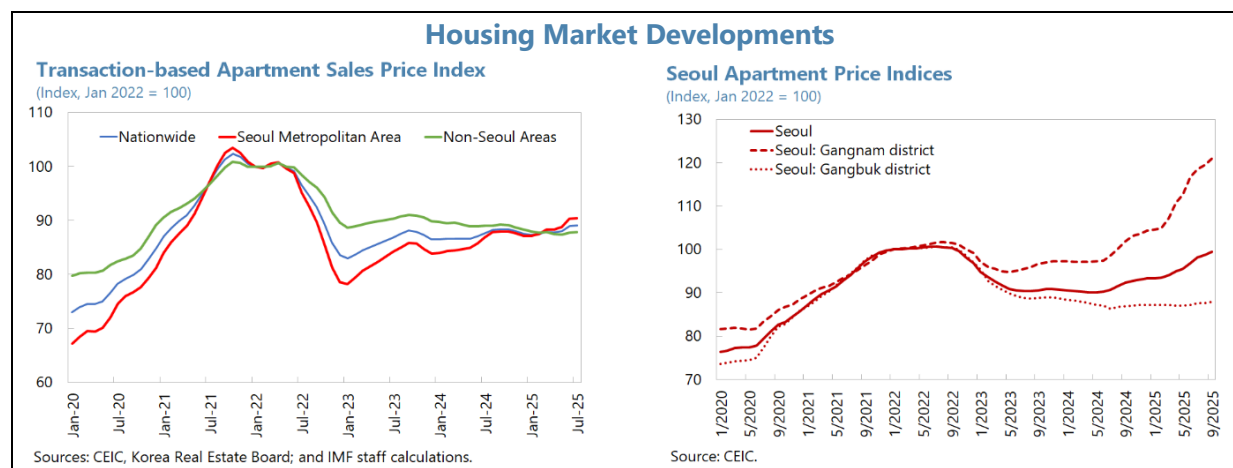
- **Private credit.** The private credit-to-GDP ratio is one of the highest amongst OECD countries at around 200 percent of GDP by end-2024, but it has been declining since 2023, partly due to tighter lending regulations, which have narrowed the credit gap for both households and corporates. Half of private credit is concentrated in the real estate and construction sectors.



- **Housing market.** Since late 2023, mortgage lending has slowed nationally, and prices have risen moderately. However, high demand and limited supply have kept prices elevated in the Seoul Metropolitan Area (MET), with signs of overvaluation,⁵ while other regions face oversupply and declining prices. Household loan growth accelerated in late 2025Q2, driven by a surge in housing

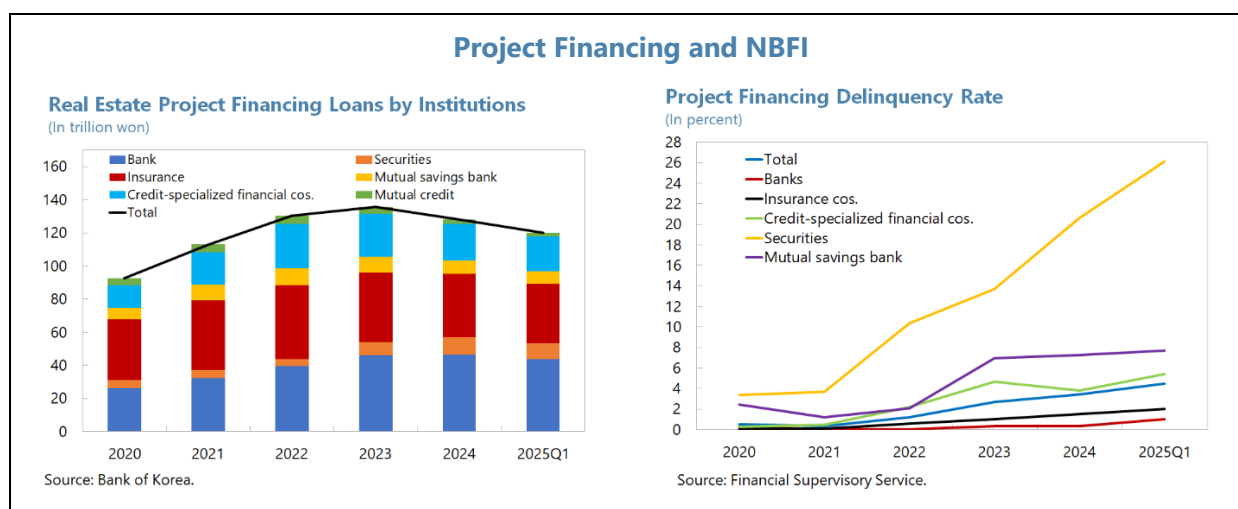
⁵ According to the Korea Real Estate Board (KREB), the housing price to income ratio in Seoul was 10.1 in 2025Q1, about 10 percent above its long-term average, while the nationwide ratio (3.9) was slightly below its long-term average.

transactions and rising property prices in the Seoul metropolitan area, due to easing financial conditions, structural supply constraints, and front-loading in anticipation of a tighter macroprudential regulation (stressed debt service ratio (DSR) rule). In response, the authorities introduced targeted macroprudential measures (Annex IV) and announced a five-year plan to increase supply in the Seoul MET (117). A sharp reduction in transaction volumes and a slower price growth in parts of Seoul suggest that measures are beginning to take effect.



- Real estate project financing (PF).** The soft-landing measures announced in May 2024 are proceeding steadily under the guidance of the Financial Services Commission (FSC) and the Financial Supervisory Service (FSS), albeit at a slower pace due to the subdued recovery of the real estate sector.⁶ As of end-June 2025, 52 percent of unviable projects were either restructured or liquidated, leaving a portfolio of unresolved, unviable PF of about 0.5 percent of GDP. The revision of project evaluation standards has helped alleviate market uncertainty by reducing credit risk regarding new PF projects. Non-performing loan (NPL) growth has slowed, but remains high in non-bank financial institutions (NBFIs), particularly mutual credit cooperatives and savings banks, which are most exposed to troubled PF. But systemic risks appear low, including from NBFIs, thanks to comfortable capital ratios and increased provisions.

⁶ Following the emergence of some risks from unviable real estate projects in 2023, soft-landing measures aimed to help restructure unviable projects, support viable projects and improve project evaluation procedures. See Text Table 1 in IMF Country Report No. 25/41.



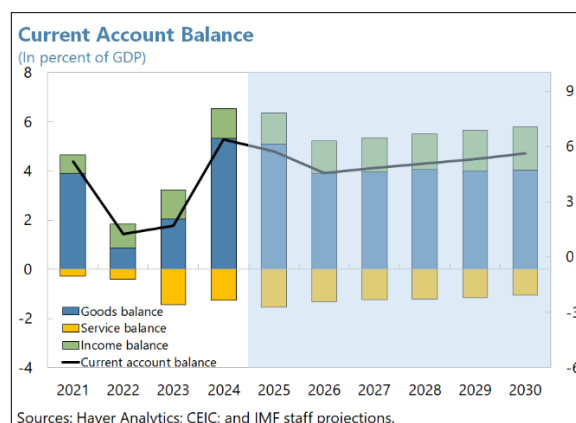
OUTLOOK AND RISKS

8. Growth is expected to rebound in 2026 after being subdued in 2025. Reflecting the slowing in late 2024 and early 2025, annual growth this year is projected at 0.9 percent even as private consumption begins to recover in 2025H2, supported by more accommodative fiscal and monetary policies and improved post-election consumer sentiment. Growth is expected to rebound to 1.8 percent in 2026, driven by a further reduction in uncertainty, the full impact of accommodative policies adopted in 2025, and base effects. The negative output gap is projected to widen to 1.1 percent in 2025 and then gradually close as domestic demand strengthens and exports recover.

9. Inflation is expected to remain close to the BoK target. After averaging slightly higher than expected in 2025H1, average headline inflation is projected to moderate to 2.0 percent in 2025 and 1.8 percent in 2026, while average core inflation is expected to remain at 1.9 percent in both years, reflecting a negative output gap, appreciated KRW, and declining oil prices. Inflation is forecasted to remain around 2 percent in the medium term.

10. Fiscal policy is expected to support the economy in the short term. The more expansionary fiscal stance in 2025, with a fiscal impulse of 0.6 percent (compared to -0.6 percent in the budget), is expected to widen the fiscal deficit (₩115). Despite higher spending planned for 2026, the fiscal deficit is projected at 2.3 percent of GDP thanks to higher revenue, implying a fiscal impulse of -0.2 percent. A broadly neutral fiscal stance is expected over the medium term. The authorities' 2026–2029 fiscal management plan projects an increase in revenue by 1.2 percent of GDP, a consolidated fiscal deficit at around 2.0–2.3 percent of GDP, with the managed deficit exceeding 4.0 percent of GDP by 2029, exceeding the proposed fiscal ceiling of 3 percent of GDP currently under consideration by the National Assembly. Central government debt remains sustainable (Annex V), with substantial fiscal space over the forecast period, and is projected to rise gradually from 48 percent of GDP in 2025 to 59 percent of GDP by 2030.

11. The current account surplus is projected to decrease temporarily in the near term. Higher effective U.S. tariffs will weigh on Korean exports despite import compression and some export reallocation. In the medium term, the CA surplus is expected to rise to 4.7 percent of GDP, supported by a gradual recovery in exports and stronger primary income driven by rising income from Korea's growing net international investment position (NIIP) resulting from increased overseas investment (both direct and portfolio).



12. Uncertainty around the outlook remains high and risks remain tilted to the downside (Annex VI). Prolonged trade policy uncertainty and intensification of geopolitical tensions could weigh on growth and disrupt trade and investment. A faster-than-expected slowdown in major trading partners could adversely affect exports. Greater financial market volatility could lead to tighter financial conditions, suppress investment and exacerbate domestic financial vulnerabilities. Higher global commodity price volatility, amid intensification of geopolitical conflicts and climate shocks, could create inflationary pressures and higher fiscal burden. A slowdown of the domestic semiconductor sector due to softening of AI-related demand could weigh on Korea's growth and exports. A stronger-than-expected impact of fiscal stimulus, faster progress on structural reforms, and new trade agreements, especially with regional partners, represent upside risks to the outlook.

Authorities' Views

13. The authorities broadly shared staff's assessment of economic prospects and risks. They noted that growth began to recover in 2025Q2 as domestic political uncertainty subsided, and they expect consumption to strengthen in the second half of the year, supported by improving sentiment and the more supportive macroeconomic policy stance. The authorities anticipate that slower export growth due to higher tariffs and global trade policy uncertainty will weigh on growth in 2026, while accommodative policies would stimulate demand. They agreed with staff's views on risks and uncertainty surrounding the baseline and concurred that a more accommodative policy stance would be necessary if downside risks materialize.

14. The authorities concurred with staff's external sector assessment. They noted that exports resilience in early 2025 reflected strong demand for high-end semiconductors, as well as large preorders and preemptive stockpiling of legacy chips. However, they expect the current account surplus to moderate in 2026, due to higher effective tariffs and a recovery in imports. They agreed with staff's assessment that the external sector in 2024 was broadly in line with the level implied by medium-term fundamentals and desirable policies.

POLICY DISCUSSIONS

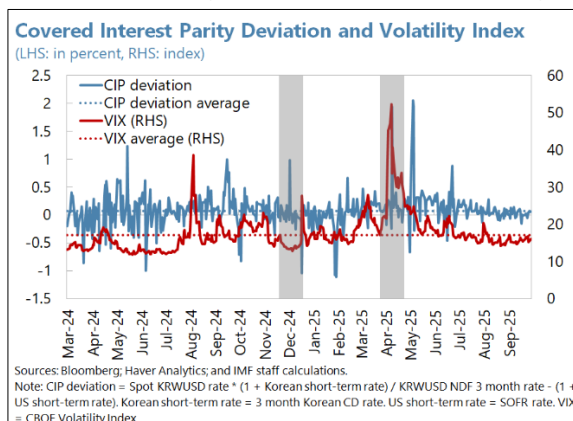
A. Supporting Growth and Reducing Vulnerabilities

15. Accommodative macroeconomic policies will help stimulate domestic demand. Given sufficient policy space, a widening output gap, and inflation close to target, looser monetary and fiscal policies are appropriate.

- Monetary policy.** With inflation expectations well-anchored and risks to inflation broadly balanced, additional cuts in the policy rate toward the lower bound of the neutral range are recommended under the baseline to bolster the expected cyclical recovery while keeping inflation close to target. Monetary policy should remain accommodative well into 2026 under the baseline but, with heightened global uncertainty, needs to remain agile and adjust to the evolving outlook and risks. Additional timely easing should be considered if downside risks to growth materialize (¶120). In the medium-term, monetary policy should aim to maintain inflation at target. Coordination with macroprudential policies will help to safeguard financial stability, but related risks—particularly from the housing market—are best addressed through targeted macroprudential measures, such as those implemented in June and September 2025 (¶117). Maintaining clear and proactive communication of policy intentions, including the BoK’s strong commitment to price stability, remains critical to keep expectations anchored.
- Fiscal policy.** The fiscal accommodation in 2025 is appropriate. The fiscal stance and the spending priorities outlined in the 2026 draft budget are broadly aligned with staff projections and recommendations and are expected to help boost growth (¶16). Increasing public investment in infrastructure, productivity-enhancing R&D, and innovation—which in advanced economies (AEs) typically yield multipliers of around 0.8—can generate stronger and sustained growth.⁷ Cash transfers, if needed, should target vulnerable households with the highest propensity to spend. However, with the continued monetary accommodation expected under the baseline, the broadly neutral medium-term fiscal stance is appropriate to reduce risks of pro-cyclicality and inflationary pressures (Annex VII). Fiscal consolidation should resume as growth converges to potential to stabilize debt around the medium-term fiscal anchor (¶138). Structural fiscal reforms will be needed to sustainably meet longer term spending needs (¶136–38). Adequate monitoring of any fiscal risks or contingent liabilities from public investments in the national growth fund is warranted. Maintaining accommodative monetary and fiscal stances beyond the closure of the output gap may yield further output gains, but would also increase the risk of inflationary pressures and erode fiscal space, potentially necessitating sharper policy adjustments later (Annex VII).

⁷ The public investment multiplier is estimated at 0.64, nearly three times the impact of that of transfer payments (multiplier ≈ 0.2). BOK Monthly Bulletin, “Results of Bank of Korea Macro-Econometric Model (BOK20) Construction”, August 2020.

16. Foreign exchange interventions (FXI) should remain limited to preventing disorderly market conditions. Exchange rate volatility generally does not pose significant economic challenges for Korea, given limited currency mismatches and manageable passthrough to consumer prices. However, in periods of increased financial market uncertainty (e.g. December 2024 and April 2025), herding behaviors and other distortions could lead to temporarily shallow FX market conditions and sharp exchange rate movements. Under such conditions, FXI can help improve market functioning, avoid undue FX volatility, and keep herding episodes short-lived. The ongoing FX reforms have started to deepen FX markets (¶34), improving the efficiency and resilience of the currency market and reducing the need for FXI.



17. Macroprudential and supply-side measures could help alleviate housing market vulnerabilities. In response to rising pressures (¶17), targeted borrower-based macroprudential measures were implemented in June, September and October 2025 (Annex IV), complementing the planned implementation of the third phase of the stressed DSR rules. These will be supplemented by an increase in risk weights applied to banks' new mortgage loans as of January 2026. These targeted measures, focusing primarily on mortgage loans in Seoul MET and multiple-home owners, are welcome. Close monitoring is warranted to assess the impact, evaluate the need for additional tightening, and prevent overcorrection. If needed, the authorities could consider expanding DSR coverage (including to the principal of *jeonse* deposit loans) and introducing lender-based measures—such as a sectoral countercyclical capital buffer (sCCyB) or a sectoral systemic risk buffer (sSyRB) for household lending (in line with 2020 FSAP recommendations – Annex VIII). The authorities' plans to increase public housing supply in Seoul MET to anchor expectations and enhance affordability are welcome. Further loosening regulations for reconstruction and redevelopment could complement public housing efforts.

18. As the PF soft-landing measures advance, a carefully planned exit strategy from public liquidity support mechanisms should be developed. Active restructuring and liquidation of remaining unviable projects, along with targeted liquidity support for viable ones, should continue. As the disposal of the most problematic projects progresses and the asset quality of exposed financial institutions improves, the preparation of a clear and well-communicated exit strategy from public liquidity support to viable projects (PF loan guarantees and recourse to PF normalization fund) will facilitate the transition toward more market-driven PF and reduce moral hazard and associated fiscal risks.

19. While Korea's financial sector remains broadly sound, there is scope to further strengthen the resilience of specific segments of financial institutions. Banks remain sound and systemic risks are low, similar to the 2024 Article IV consultation, with capital ratios comfortably over prudential requirements and low NPLs. The deterioration in asset quality and profitability from

remaining PF exposures and vulnerable households remains a concern for the more exposed NBFIs segments, but systemic risks remain manageable risks, mitigated by higher capital ratios and provision levels. Ongoing efforts by the FSC to strengthen prudential regulations for NBFIs—including increased capital requirements, higher risk weights for real estate and construction assets, enhanced provisioning against non-standard assets, and stress testing (in line with 2020 FSAP recommendations – Annex VIII)—are welcome. The establishment of private subsidiaries to acquire and manage NPLs of mutual savings banks and credit cooperatives should help expedite asset quality improvements. Narrowing the regulatory gap between banks and NBFIs, and across categories of NBFIs, should remain a priority, and the task forces set up by the authorities for this purpose are welcome.

Adverse Macroeconomic Scenarios and Contingency Planning

20. In case downside risks materialize, further monetary and fiscal accommodation could be considered. In an illustrative adverse scenario—marked by widening global imbalances and a fall in global output (Box 1)—growth and inflation in Korea would slow further. In this case, monetary policy should be eased at a faster pace, and the fiscal stance should be further loosened through targeted support for vulnerable households and firms. Exchange rate flexibility should be the first line of defense, with interventions limited to addressing disorderly market conditions. If financial sector stress emerges due to a further tightening of global financial conditions, temporary and targeted measures to support affected institutions or stabilize markets may be warranted, with appropriate safeguards in place to mitigate moral hazard.

Box 1. Adverse Macroeconomic Scenarios and Contingency Policies for Korea

With Korea's high exposure to global trade and financial markets, external shocks could weaken the economic outlook. Using the Quarterly Projection Model (Annex VII), two illustrative scenarios are simulated to capture the potential effects of deteriorating global conditions on Korea. For each scenario, the simulations show the impact of the shock on growth with and without a policy response, where policies adjust endogenously to help cushion the impact on growth.

Scenario 1. It is calibrated in line with the July 2025 WEO Update on global downside assumptions—higher tariffs are permanent, but there are no additional shocks, including to global financial conditions.

Scenario 2. It represents a modified April 2025 WEO downside scenario (with no financial conditions shocks), causing a sharper slowdown in growth in 2025–26, with inflation easing as weaker demand outweighs the direct price effects of higher tariffs, and is characterized by:

- **Trade war escalation and global divergence**, where reciprocal tariff increases between the United States and the Chinese mainland weigh heavily on Korean exports—particularly semiconductors—and deteriorate the trade balance.

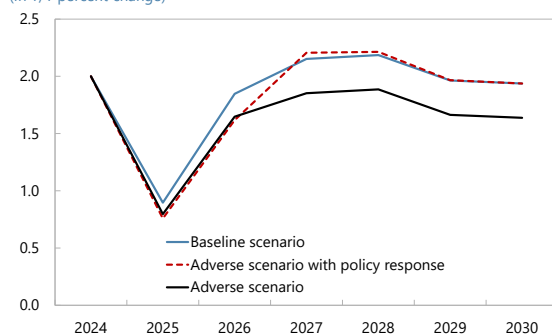
Box 1. Adverse Macroeconomic Scenarios and Contingency Policies for Korea (Concluded)

- **Increased global uncertainty**, where elevated uncertainty amplifies the trade shock, further depressing external demand and investment, with effects peaking after several quarters. The scenario assumes a smaller increase to reflect trade deals— half the size of the April 2025 WEO assumptions.

Timely and coordinated policy responses can significantly mitigate the impact of adverse external shocks on Korea's economy. In the first scenario, monetary easing quickly supports activity, enabling growth to return to baseline within a relatively short period with only modest interest rate reductions. In the second, more adverse scenario, the recovery is slower, requiring a more prolonged and deeper monetary policy accommodative stance. Under both scenarios, fiscal policy is assumed to adjust to keep debt stable over the medium term (the debt ceiling in the rule-based fiscal framework under parliament's consideration), ensuring that short-term support does not undermine fiscal sustainability. Overall, the simulations suggest that Korea's policy framework provides substantial room to counter external shocks; however, a timely and well-calibrated policy response remains critical to safeguard growth and stability in an uncertain global environment.

Scenario 1: Real GDP Growth

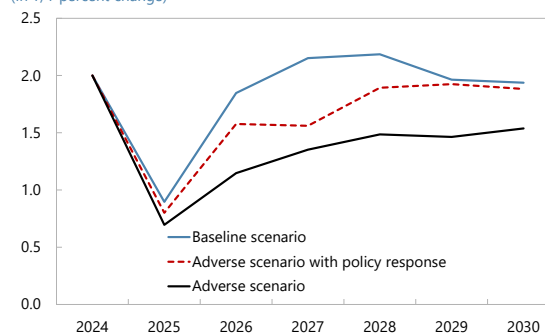
(In Y/Y percent change)



Source: IMF staff projections.

Scenario 2: Real GDP Growth

(In Y/Y percent change)



Source: IMF staff projections.

Authorities' Views

21. The BoK agreed that monetary easing will support growth but emphasized the importance of maintaining an agile policy stance. While noting that recent cuts have not yet had a full impact on growth so far given elevated uncertainty, they concurred that further policy rate cuts are necessary to support domestic demand while preserving price stability. They emphasized that the timing, size and pace of future cuts will depend on Korea's external outlook and financial stability conditions including in the housing market and household debt. The BoK also agreed that additional easing may be warranted if downside risks materialize. The authorities reiterated their commitment to exchange rate flexibility and emphasized that FXI is limited to addressing situations of excessive exchange rate volatility caused by herding behavior in markets.

22. The authorities noted that fiscal expansion is needed to bolster growth. It is necessary to stimulate domestic demand and support structural transformation through priorities identified in the EGS. They noted that higher growth would keep debt on a downward trajectory. The authorities acknowledged that universal cash transfers may have resulted in a lower fiscal multiplier of the 2025 stimulus packages compared to capital or R&D expenditure. However, they argued that the transfer multiplier tends to be higher when economic activity is subdued, as it was in 2025H1, and the stimulus was needed to provide a rapid boost to consumption. They concurred that any additional

fiscal support, if needed, would be targeted toward growth-enhancing projects. They indicated that a neutral fiscal stance would be appropriate as the economic recovery takes hold.

23. The authorities broadly agreed with staff's assessment of financial sector

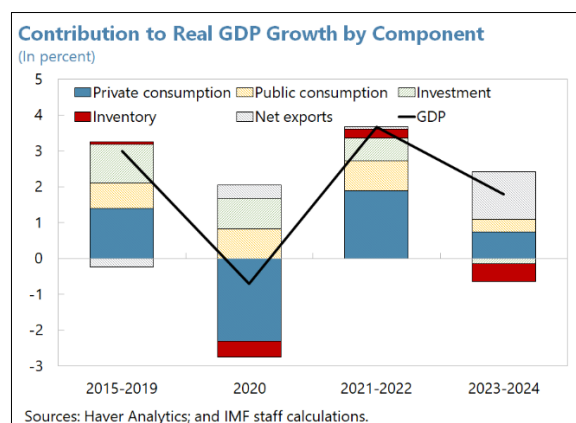
vulnerabilities. They noted that macroprudential measures have been effective in curbing household debt growth and moderating property price increases in Seoul MET, and they affirmed their readiness to tighten existing measures or introduce new ones, if needed. The planned adoption of supply-side measures and the regional development focus of the EGS would help address the structural mismatch between housing supply and demand. The authorities will continue implementing soft-landing measures in the real estate sector, given their effectiveness in improving asset quality for the most exposed NBF segments. While acknowledging the need to begin preparing an exit strategy, they consider continued government support for viable projects essential, given the ongoing downturn in the construction sector. They underscored their commitment to improve the soundness of NBFs through stronger prudential regulations, particularly for mutual credit cooperatives and savings banks.

B. Boosting Demand amid Global Uncertainty

Given rising external demand vulnerabilities, revitalizing domestic demand will be essential for more resilient growth. Addressing demographic challenges, reducing labor market rigidities, and gradually deleveraging the private sector could help boost consumption and improve investment prospects. Additionally, reducing structural weaknesses in Korea's export sector, especially in services, would further enhance demand resilience.

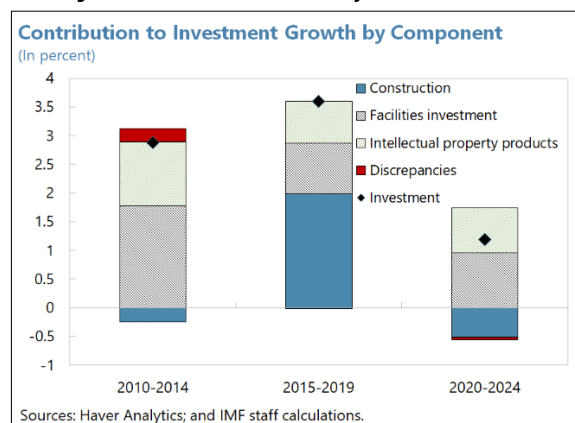
Boosting Domestic Demand

24. The contribution of domestic demand to growth has decreased in 2023-2024. The COVID-19 pandemic led to a contraction in private consumption in 2020. From 2020 to 2024, private consumption grew at an annual rate of 1.3 percent, falling short of the 2 percent annual real GDP growth.⁸ Weak investment growth, especially in construction since 2023 due to real estate PF constraints, has also contributed to slower domestic demand, with investment contributing only 18 percent to GDP growth between 2020-2024. The recent increase in outward FDI, partly driven by the increased trade tensions, also helps explain the declining contribution of investment to domestic demand.



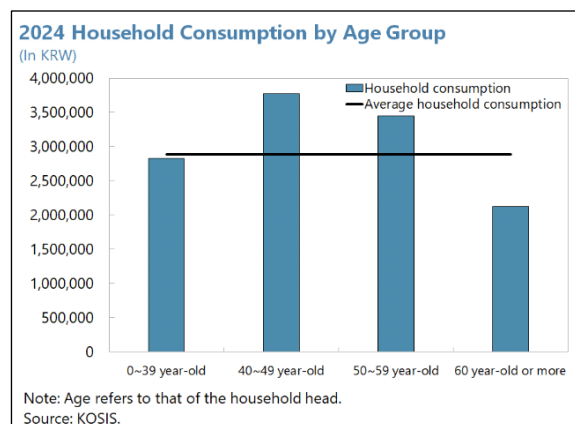
⁸ Despite a rebound in 2021-2022, private consumption growth decelerated significantly in 2023-2024.

25. Private consumption has contributed importantly to this decline. Many factors could have contributed to this modest performance. Rising inflation in late 2021 and early 2022, along with associated monetary policy tightening in 2021-23, further weighed on private consumption. High household debt in Korea, increasing from 64 percent of GDP in 2003 to 92.6 percent in 2024, and the large share of floating-rate loans led to a larger and prolonged cyclical slowdown in private consumption. Also, modest national wage growth post-COVID, coupled with rising inflation, led to a decline in real wages in 2022 and 2023.



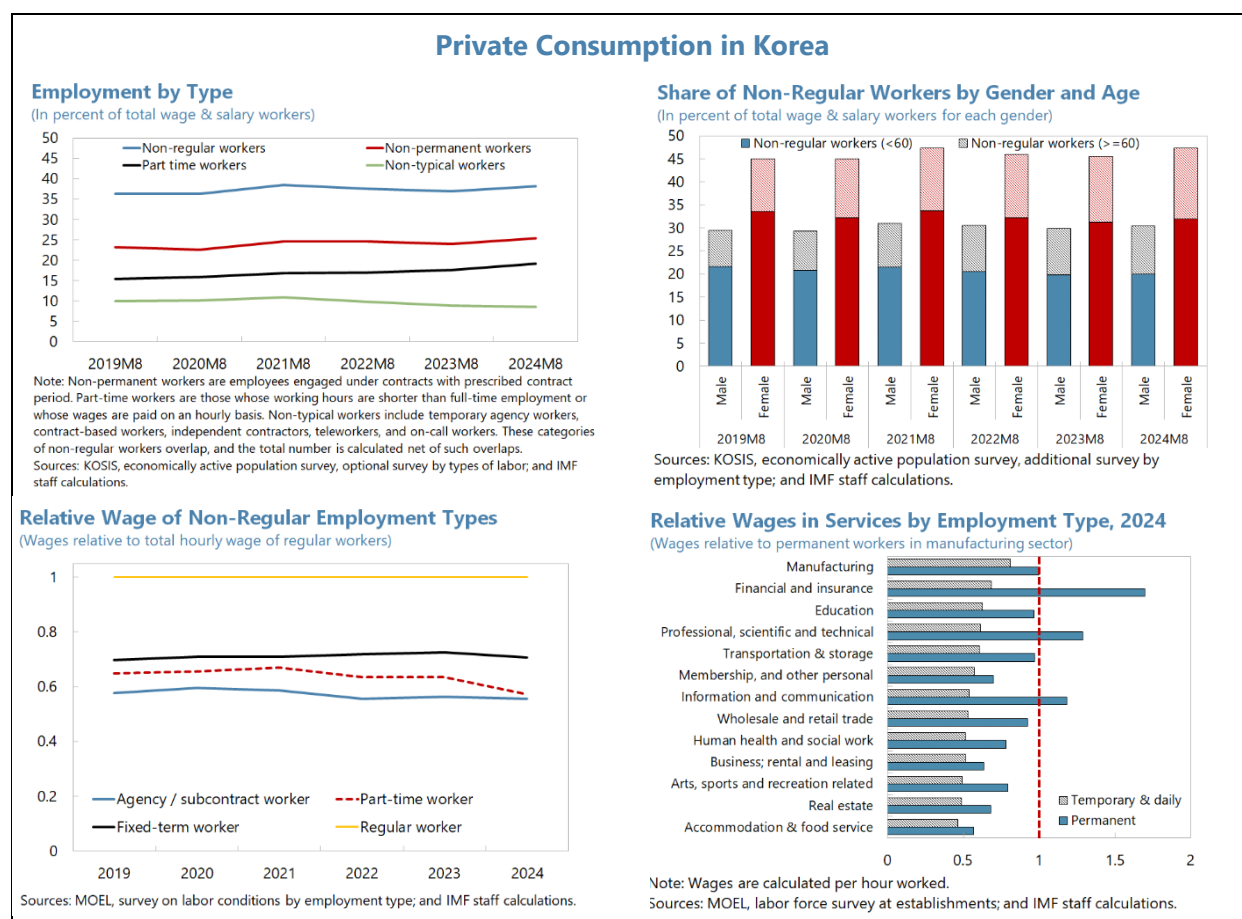
26. Several compositional changes, including a rise in non-regular workers and an ageing population, can weigh on future private consumption.

- Labor market developments.** Labor market duality in Korea could have a significant impact on private consumption, given the significant wage gap between regular and non-regular workers. Korea has the highest share of its labor force employed in temporary, lower-wage jobs among OECD countries. This share could rise in the future as women and elderly workers joining the work force tend to be disproportionately employed in non-regular employment within service-sector, especially in Small and Medium Enterprises (SMEs) which are characterized by relatively low productivity and low wages. Continued lower wages of non-regular workers could keep domestic consumption subdued.
- Population aging.** The share of the elderly population – 65 years and older - has risen rapidly since the mid-1990s, increasing from less than 6 percent to about 20 percent in 2024. Incomes of older households tend to be below average, and their propensity to consume is lower.⁹ Incorporating the expected demographic change and differences in consumption patterns by age category, staff projects that, on average, real consumption will decrease by 1.6 percent for every 1 percent



⁹ See Selected Issues Paper, "Healthy Ageing and Labor Market Participation in Korea", forthcoming.

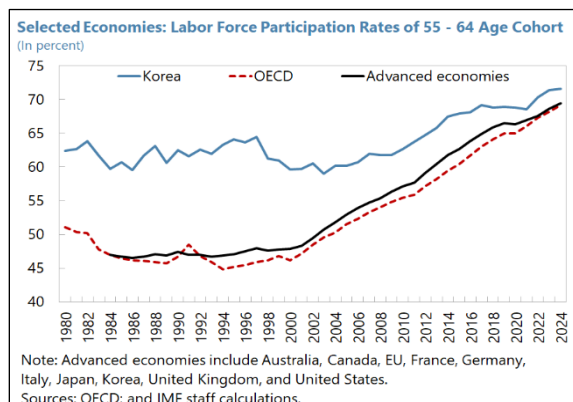
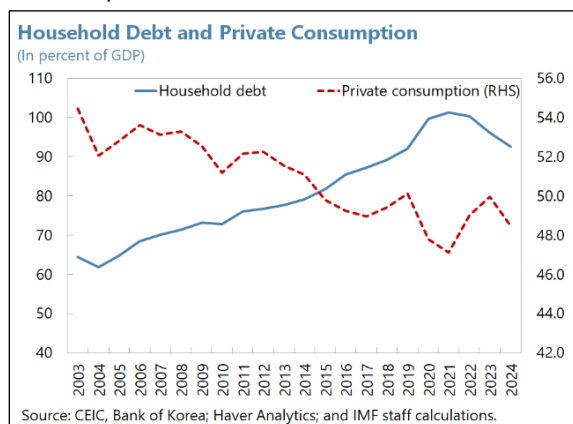
decline in the population.¹⁰ While the decline in consumption due to aging will be broad based, some sectors, such as education would experience the largest decline.



¹⁰ The elasticity is derived by dividing total consumption growth (-19 percent) by total population growth (-12 percent) from 2024 to 2050. Out of the total decline in consumption, 7 percent is due to changes in the population's age profile while the rest is accounted for by population growth. In addition to age-specific consumption patterns, the estimation considers changes to the total population as well as the distribution of the population across age groups. Formation of new households is considered to the extent that the UN population projections consider fertility rates by age-groups, meaning they incorporate the trend of people having children in later stages of their life. The results are based on the decline in the overall population.

27. Besides cyclical policies (¶15), structural policy measures would also be essential for a sustained boost to domestic demand. Key policy priorities include:

- **Reducing household debt.** In the short term, tight macroprudential measures to limit the growth of housing-related household loans are appropriate. However, durable household deleveraging will require structural reforms aimed at correcting housing market imbalances in Seoul, including raising housing supply, and strengthening the monitoring and risk management of the *jeonse* system.
- **Reducing labor market duality.** Continuing with labor market reforms to enhance the flexibility of regulations for regular contractual workers – such as shifting from a seniority-based pay to performance-based pay could enhance incentives for employers to retain workers longer and reduce reliance on irregular workers, thereby reducing wage and job security gaps. In parallel, implementing product market reforms to boost productivity of service-sector SMEs (¶31-32) would help lower labor market duality and support consumption.
- **Mitigating the adverse impact of population aging.**¹¹
 - **Promoting the employment of elderly workers.**¹² Elderly workers constitute nearly a quarter of Korea's labor force, with their participation rate steadily increasing and consistently remaining above that of their peers. Health improvements in Korea have increased life expectancy, encouraging older individuals to remain in the workforce longer – resulting in a 1.7 percent annual increase in elderly labor supply during 2006-2020.¹³ To support hiring and retaining elder workers longer in the workforce, policies should focus on: (i) raising the statutory retirement age above 65,¹⁴ (ii) closing the gap between the



¹¹ See IMF Country Report No. 25/41 for a detailed analysis of the reforms needed to mitigate the adverse impact of population aging.

¹² Elderly workers refer to individuals aged 55 years and older. While the UN defines elderly individuals as those aged 65 years and older, the focus on individuals aged 55 years and older is because Koreans typically retire in their early fifties, well before they reach the official retirement age, yet often remain active in the labor market.

¹³ See Selected Issues Paper, "Healthy Ageing and Labor Market Participation in Korea", forthcoming.

¹⁴ The authorities already plan to raise it from 60 to 65.

contribution age (60) and pension eligibility age (set at 63) to improve income security and reduce reliance on low-quality jobs; and (iii) promoting flexible schedules and age-friendly workplaces. In the longer term, reforming the seniority-based wage system could help elderly stay employed until the statutory retirement age. Improving employment protection laws would help address labor market duality and facilitate the hiring of elderly workers. Similarly, active labor market policies that encourage vocational training including digital skills (¶132), and promote better job matching, pre-search counselling, and guidance services can also make hiring elderly workers more attractive to employers.

- **Attracting foreign talent and improving fertility.** Staff projections also show that raising migration would boost consumption by 2 percent by 2100 relative to the baseline scenario.^{15 16} Korea's fertility rate, at 0.75 as of 2024, is well below the replacement rate of 2.1 and among the lowest in the world. Staff projections estimate that consumption would be boosted by 2 percent by 2050 if fertility rates rise to 1.3, and by 11 percent if they rise to the replacement level by 2100. Alternatively, a further reduction in fertility rates to 0.4 percent from the current 0.75 level would depress consumption further by 15 percent by 2100.¹⁷

Authorities' Views

28. The authorities broadly agreed with staff's recommendations that boosting domestic demand will make growth resilient. They confirmed that demand management policies are helping address the cyclical downturn. Enhancing social safety nets – particularly through the Basic Livelihood Security Programs targeted towards low- and middle-income households -- is expected to support household consumption. Plans to increase public housing supply should improve affordability, especially for younger households. The authorities also intend to prioritize the development of a fair wage system to narrow wage gaps between large firms and SMEs. To mitigate the impact of ageing on labor markets, they will continue to promote employment opportunities for the elderly and enhance incentives to attract foreign talent.

Reducing Vulnerabilities in Korea's External Demand

29. Reducing vulnerabilities in export structure could strengthen external resilience (Annex IX). The concentration of exports in few products and destinations, combined with deep integration into global value chains—as reflected in a high import content of exports (backward integration) relative to peers—heighten Korea's exposure to external shifts. Concerted policies will be needed to

¹⁵ The baseline scenario incorporates UN population projections.

¹⁶ Under the optimistic scenario, cumulative net migration from 2025 to 2050 doubles relative to the baseline—from 0.8 million to 1.6 million individuals.

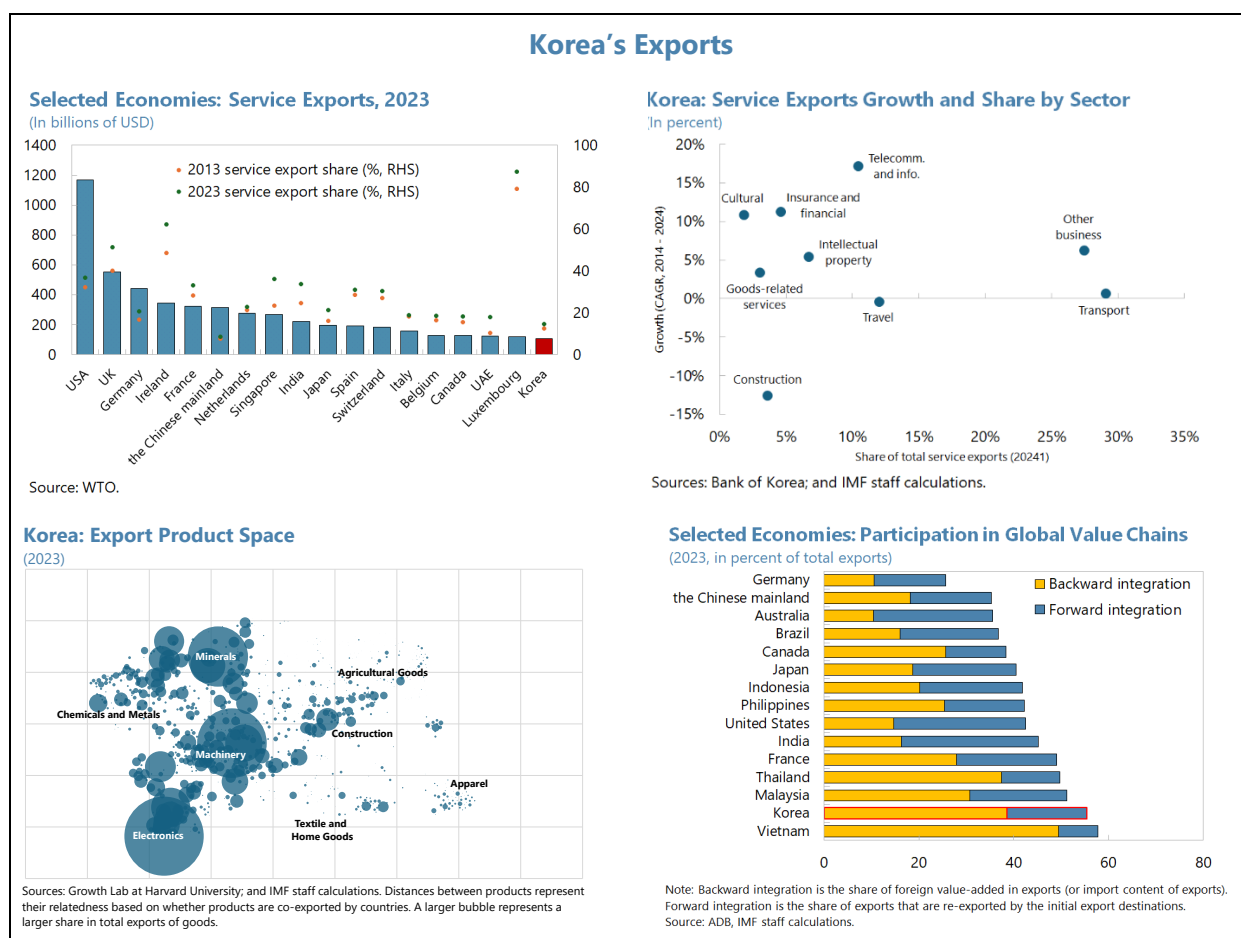
¹⁷ The high fertility scenario assumes the fertility rate improves to 1.3 by 2050 and 2.1 (replacement level) by 2100. The low fertility scenario is directly taken from the UN Population Prospects and assumes a total fertility rate of 0.53 in 2050 and 0.8 in 2100. These projections were carried out in the context of a forthcoming working paper on Ageing and Consumption in Asia.

sustain exports as a growth engine and to build more resilient and diversified trade linkages. Key policy priorities include:

- **Developing exports of services.** Korea's service exports, particularly digitally delivered services, have grown rapidly since the 2010s but still account for only 15 percent of total exports—a modest share compared to other AEs. Leveraging its technological advancement and cultural appeal, Korea has the potential to transform intellectual service exports, including K-pop and K-drama, into leading export sectors.¹⁸ The authorities' plans to provide more targeted support to innovative business models and ensure sustainable revenue generation from cultural services, including through intellectual property licensing, are welcome. Reducing entry barriers for digitally enabled startups, incentivizing R&D and improving productivity of SMEs, given their dominance in services (¶131), are crucial for enhancing export competitiveness. Government support programs, including export financing, which currently focus predominantly on goods exporters (over 80 percent), could be extended to service exporters.
- **Staying at the technological frontier for goods exports.** As a global leader in semiconductor innovation, production and export, Korea's current range of export products ranks among the most technologically advanced in the world, with strong growth prospects. To preserve Korea's comparative advantage, policies should continue to prioritize innovation and leverage AI's potential (¶132), as outlined in the EGS. Policies aimed at bolstering SME productivity (¶131) could help reposition them as key suppliers of intermediate inputs, thereby increasing domestic value-added content in Korea's exports. However, industrial policies to support exports should remain confined to specific objectives where externalities or market failures prevent effective market solutions and, even then, they should minimize trade and investment distortions, be consistent with international obligations, and avoid discriminating between domestic and overseas producers.
- **Diversifying export destinations and supply chains** is key to building more resilient trade linkages. Upgrading existing FTAs and entering into new ones would help diversify supply chains and mitigate trade policy uncertainty.¹⁹ Moreover, Korea could gain from deeper regional trade integration by collaborating with partners to reduce non-tariff barriers—such as simplifying technical regulations and customs procedures—and by fostering stronger trade linkages with emerging market economies. New export destinations can also be accessed by diversifying into new export items, such as defense equipment and final consumption goods like food and cosmetics, moving beyond the traditional intermediate and capital goods.

¹⁸ Intellectual service exports refer to services that rely on intellectual property such as patents, trademarks, copyrights etc.

¹⁹ Korea is already part of 22 FTAs with countries covering 85 percent of global GDP.



Authorities' Views

30. The authorities view export diversification as a priority to enhance external resilience.

They highlighted ongoing efforts to expand government support for service-sector companies, especially in culture and tourism. These efforts focus on facilitating the emergence of innovative business models, promoting the global diffusion of K-content through trade promotion agencies, and strengthening intellectual property rights. Export diversification, including into services, is expected to be a central pillar of their upcoming trade strategy. They stressed that the support to high-tech or service industries does not discriminate against foreign producers, and that all policies are designed in accordance with international norms, including WTO compliance.

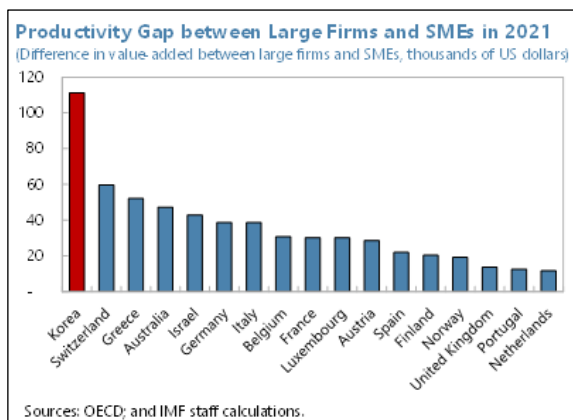
C. Structural Reforms for Higher Potential Growth and Long-term Resilience

Expediting structural reforms to boost productivity in the services sector—particularly among SMEs—and enhancing capital allocation would raise Korea's potential growth. Long-term fiscal policy should focus on reforms to accommodate future spending pressures while ensuring fiscal sustainability.

Increasing Productivity

31. More flexible product markets and a lower regulatory burden should help boost

productivity for SMEs. Korea's relatively low labor productivity compared to other AEs is largely explained by low productivity in SMEs in the services sector—primarily due to inefficient resource allocation.²⁰ Despite improvements, SMEs still face a more cumbersome regulatory burden than larger firms.²¹ Removing legal barriers to entry, trade, and investment in service sectors—particularly network services such as energy, transport and communications—would help ease this burden and foster competition. Simplifying administrative procedures for business registrations and reducing startup costs would facilitate the creation of new firms and innovative ventures. Other measures include streamlining government support programs for SMEs and focusing them on viable firms, reviewing their eligibility criteria and linking support to firms' ability to improve productivity, generate long-term profitability, and contribute to economic efficiency.



32. Sustaining innovation and harnessing AI productivity gains are key to enhancing long-term productivity. While AI adoption among Korean firms is rising rapidly, larger companies with stronger technological capacities have been the primary beneficiaries, potentially widening productivity gaps with SMEs.²² To harness AI-related productivity gains more broadly, supporting AI preparedness of SMEs, enhancing digital skills, and increasing labor market flexibility to help firms adapt quickly to AI-driven changes would be beneficial. Policies with high multiplier effects such as public funding for fundamental research, R&D tax incentives and research grants, especially for startups, can support sustained innovation and accelerate AI adoption. The focus of the new administration's EGS on economy-wide AI adoption and innovation is welcome (Annex II). Targeted training and reskilling programs, along with measures to strengthen the social safety net, would help mitigate AI transition risks.

Authorities' Views

33. The structural reform agenda will be guided by the new government's EGS, which aims to boost productivity and raise potential growth. The strategy, focused on AI transformation, innovation and regional development, is expected to foster more balanced and inclusive growth and

²⁰ SMEs represented more than 80 percent of total employment in 2023, but produced less than half of total value added, with their activities skewed towards non-tradable services.

²¹ For an analysis of the drivers of productivity growth in Korea and the role of allocative efficiency, see Annex IX in IMF Country Report 25/41.

²² For an analysis of the expected impact of AI on Korea's output and productivity, see Chang, et al. 2025. "Transforming The Future: The Impact of Artificial Intelligence in Korea", IMF Selected Issues Paper SIP/25/13.

increase potential growth to 3 percent. The 2026 draft budget already includes sizable R&D allocations, and the EGS will prioritize 30 flagship projects focused on AI transformation and innovation. The authorities also plan to apply AI to select public sector services—such as tax filings and welfare delivery—and expand AI education and training to wider segments of the population. They plan to collaborate with academics and young entrepreneurs to support innovative AI projects. They view the rapid transition to AI and workplace automation as a means to mitigate the adverse effect of ageing on labor supply. Policies are underway to facilitate the establishment of innovative startups, better support viable SMEs, facilitate their growth into larger companies as well as facilitate the deployment of AI-based smart factories to enhance their productivity.

Enhancing Capital Allocation

34. Reforms to reduce the “Korea discount” and deepen financial markets are critical to attract long-term investment. The corporate value-up program, launched in 2024 to help address the low price-to-book and price-to-earnings ratios of Korean companies compared to other AEs (“Korea discount”),²³ was complemented by corporate governance reforms (Text Table 1), a key step toward enhancing transparency, aligning shareholder incentives, and modernizing corporate practices. FX market reforms introduced in July 2024—including allowing direct access to the onshore FX market for foreign financial institutions and extended trading hours—have contributed to deepening FX markets and attracting foreign investors.²⁴ Other ongoing initiatives, such as introducing an aggregator system and developing electronic FX trading, are welcome steps and should further improve foreign investors’ access to the domestic capital market. Any financial innovation, including adopting KRW-based stablecoins, should be carefully evaluated and managed to safeguard financial stability and integrity.

Text Table 1. Key Reforms Introduced in 2025 to Reduce the “Korea Discount”	
Reform	Details
Amendments to the Commercial Act (July 2025)	Codification of the fiduciary duty of directors to “all shareholders” (as opposed to “the company” prior) (immediate application).
	Limitation of voting rights of largest shareholders to 3 percent when appointing or dismissing audit committee member (mandatory from July 2026).
	Replacement of the “outside director” appellation with “independent director” (mandatory from July 2026).
	Mandatory hybrid shareholder meetings for large companies, to offer the option to participate in person or remotely (mandatory from January 2027).
Amendments to the Commercial Act (September 2025)	Cumulative voting system for large listed companies (assets exceeding KRW 2 trillion), whereby each share carries votes equal to the number of directors to be chosen, and all votes may be allocated to a single candidate.
	Selection of at least two audit committee members other than executive board members (against one prior to the amendment).

Source: Korean authorities.

²³ For details on the drivers of the Korea discount and the 2024 reforms to reduce it, see Annex VII in IMF Country Report 25/41.

²⁴ The average daily FX spot trading volume on the onshore market over the July 2024 – June 2025 period is 16.3 percent higher than over the preceding 12 months and 44.6 percent higher than over the 2019-2023 period.

Authorities' Views

35. The authorities' capital market reforms are aimed at protecting and attracting investors. Ongoing corporate governance enhancements are intended to make markets fairer for smaller shareholders. To improve foreign investors' access to FX markets, the authorities plan to announce a roadmap of measures supporting Korea's inclusion in the MSCI Developed Market index. They noted that the development of a won-based stablecoin could help bolster Korea's attractiveness for investors but concurred with staff's assessment of the need to carefully consider measures to safeguard financial stability and integrity.

Fiscal Reform

36. Age-related spending pressures are expected to rise significantly in the medium- to long-terms and reduce Korea's fiscal space in the absence of measures. With central government debt at less than 50 percent of GDP at end-2024, Korea has some space to respond to higher age-related spending needs. However, over the long-term spending needs on pensions, health care, and long-term care are estimated to increase by some 30 to 35 percent by 2050.²⁵ Under a no-reform baseline scenario and factoring in declining potential growth due to aging, IMF staff projections suggest that total spending could rise by 5-10 percent of GDP by 2050 while the debt ratio could reach 90-130 percent of GDP, eroding fiscal space and increasing risks to debt sustainability significantly (Annex IV). Structural reforms that boost potential growth would preserve some fiscal space.²⁶ Under a structural reform scenario, the debt-to-GDP ratio could be approximately 30 percent lower than in the baseline scenario. Such reforms would thus create room for the government to accommodate higher spending while partially easing the pressures on fiscal sustainability. However, debt would likely remain above 60 percent of GDP—the proposed ceiling in the rule-based fiscal framework under parliamentary consideration.²⁷ Moreover, the scenario does not factor in risks and uncertainty—including with respect to the growth impact of reforms—and debt sustainability risks would still be substantially higher, underscoring the need for additional fiscal reforms (¶137-38).

²⁵ Pensions used to estimate spending and debt paths under the alternative scenarios include the basic old-age pension scheme and government pension schemes.

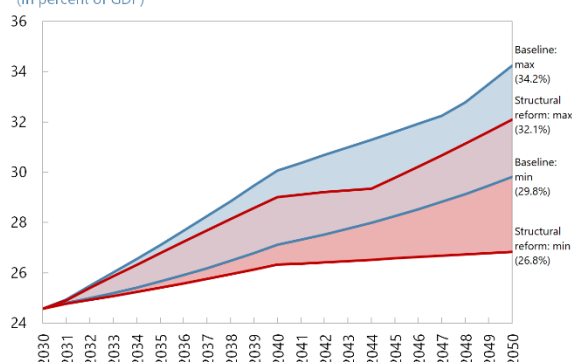
²⁶ These reforms assume productivity gains from AI adoption, improvement in labor force participation and allocative efficiency, which are described in more details in IMF Country Report 25/41.

²⁷ The proposal rules-based framework, including a 60 percent GDP debt ceiling and a 3 percent of GDP managed fiscal balance cap, originally submitted to the National Assembly in 2022 and re-submitted in 2024 following the National Assembly elections, is still pending parliamentary approval.

Structural Reform Scenarios

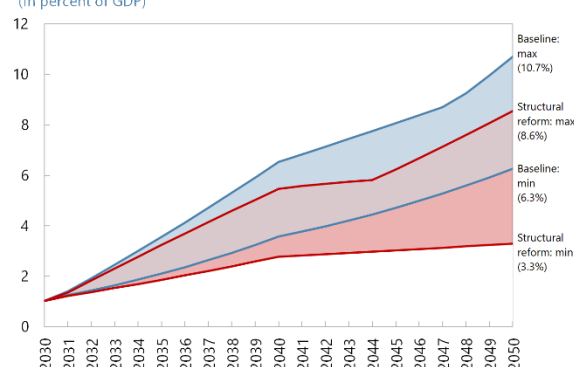
Projected Total Public Spending Path

(In percent of GDP)



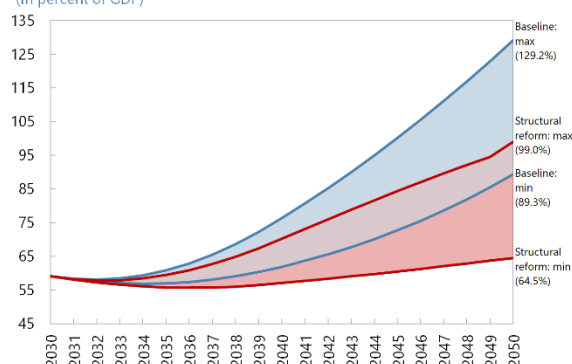
Projected Fiscal Deficit Path

(In percent of GDP)



Projected Debt Path

(In percent of GDP)



Sources : IMF staff calculations based on estimates from IMF Fiscal Monitor (April 2025); OECD Economic Survey: Korea (2024); OECD Pensions at a Glance (2023); NABO Long-Term Fiscal Projections (2025–2072); and Medium- and Long-Term Social Security Fiscal Projection (2024) by the Korea Ministry of Health and Welfare. Methodology: Social spending growth rates for 2030–2050 are obtained from the sources above, and the nominal spending path is derived using macroeconomic projections from the staff's baseline macro-framework. Under the baseline scenario with no reform, real GDP growth is projected to decline to 0.9 percent by 2050, reflecting shrinking labor force. Under the structural reform scenario outlined in Annex X of IMF Country Report No. 25/41, real GDP growth is held constant at its potential of 2 percent from 2031 through 2050, as reforms fully offset the impact of labor force decline on potential growth. The Ministry of Economy and Finance's Third Long-Term Fiscal Outlook (2025–2065), released in September 2025, incorporates the pension reform and reports debt-to-GDP and expenditure trajectories broadly aligned with the range of staff's estimates.

37. Against this backdrop, structural fiscal reforms remain essential to safeguard long-term fiscal sustainability. Key reforms to create fiscal space include:

- Revenue mobilization and spending efficiency.** In addition to recent tax policy changes (reversing CIT and other tax cuts), reviewing PIT and CIT tax expenditures and streamlining them, if necessary, will help create fiscal space. Similarly, rationalizing VAT exemptions, which have increased in Korea, should be considered. Given that the VAT rate at 10 percent remains low compared to the AE average of 18.5 percent, increasing the VAT rates could create additional fiscal space. As output approaches its potential in the medium term, scaling-back spending would be appropriate, including through unwinding support to local governments and businesses and streamlining support to SMEs (¶31 and ¶32). Measures such as aligning domestic energy prices more closely with international commodity prices and terminating fuel tax cuts are examples of fiscal levers that could reduce the debt burden on the public sector and mitigate

negative externalities on climate. Over the long term, improving the efficiency of public spending can help boost the economy's productive capacity.

- **Pension reform.** Parliament passed reforms—raising the contribution rate from 9 to 13 percent and increasing the income replacement rate from 40 to 43 percent—that will improve NPS fiscal sustainability, postponing the onset of deficits from 2041 to 2048 and the depletion of its assets from 2056 to 2064. Further reforms should continue to focus on striking a balance between the pension fund's long-term sustainability and the adequacy and equity of pension benefits.²⁸

38. Adopting a credible fiscal anchor, supported by an enhanced medium-term fiscal framework (MTFF), would help safeguard long-term fiscal sustainability. The fiscal rule proposal submitted to the National Assembly in 2022 (with a 3 percent ceiling on the managed balance and 60 percent ceiling on debt) remains under discussion. In the meantime, the adoption of a medium-term anchor will enhance policy frameworks resilience by balancing flexibility to respond to shocks with long-term fiscal sustainability. The adoption of the anchor could possibly be supported by an operational rule to help align the annual budget with it.²⁹ An enhanced MTFF that incorporates long-term spending pressures could serve as a credible guide for annual budgets and broadly support the adoption of the fiscal anchor.³⁰ It can be complemented by long-term strategies to address aging-related fiscal risks, supported by fiscal sustainability analyses that assess the macro-fiscal impact of long-term spending pressures and the costing of reforms through revenue mobilization, expenditure reprioritization and pension reforms.

39. The authorities have announced a five-year EGS, which will guide their reforms agenda. The strategy, announced in August 2025, focuses on achieving technology-driven, inclusive, fair and sustainable growth. It prioritizes strategic high-tech industries (AI, semiconductor, biotech, robotics among others), energy infrastructure and other technology ventures. The authorities established a new KRW 150 trillion National Growth Fund to mobilize investments for the new strategy over the next 5 years, financed by the issuance of government-guaranteed “Advanced Strategic Industries Fund” bonds (KRW 75 trillion) and private capital (KRW 75 trillion). The strategy is expected to enhance productivity and bolster growth; however, its impact will depend on the design and implementation of each of its pillars.

Authorities' Views

40. The authorities reaffirmed their commitment to reforms to maintain long-term fiscal sustainability. They noted that their third long-term fiscal outlook (2025~2065), which aims to monitor the impact of ageing on fiscal policy, was submitted to the National Assembly. To safeguard

²⁸ See Annex X in IMF Country Report No. 23/369 and Baksa D. et al. (2024), “Parametric Pension Reform Options in Korea”, IMF Working Paper 24/223, for a detailed analysis of pension reform options in Korea.

²⁹ See ¶42 in IMF Country Report No. 23/369 for a detailed discussion of the fiscal rule in Korea.

³⁰ See “How to Develop and Implement a Medium-Term Fiscal Framework.” 2024. IMF How-To-Note, International Monetary Fund, Washington, DC.

fiscal sustainability, they have formed committees tasked with rationalizing spending to accommodate aging-related long-term spending pressures and identifying pension reforms needed to maintain the solvency of NPS. They also plan to mobilize about 1 percent of GDP over the next five years by expanding the tax net. They acknowledged that the fiscal rule proposal submitted to the National Assembly in 2022 remains under discussion and highlighted that the National Assembly will hold a public hearing to review the proposed ceilings. They recognized the need to enhance the effectiveness of the medium-term fiscal framework safeguard fiscal sustainability.

STAFF APPRAISAL

41. Real GDP growth is expected to recover gradually, but uncertainties remain high, and risks are tilted to the downside. While growth has slowed in 2025, inflation remains close to the target, and financial stability risks remain manageable. The authorities are pursuing accommodative policies to support growth. With improving domestic demand, supported by accommodative policies and resolution of domestic political uncertainty, and recovering exports, the negative output gap is expected to close by the end of the forecast period. Inflation is expected to remain close to BoK's 2 percent target. Risks remain tilted to the downside, amid persistent trade policy uncertainty, intensification of geopolitical conflicts and weather-related risks.

42. Monetary policy should remain agile to preserve price stability while supporting domestic demand. Given the negative output gap, well-anchored inflation expectations and balanced risks to inflation, additional cuts in the policy rate toward the lower bound of the neutral rate would support cyclical recovery. However, given high uncertainty, the timing, size and pace of future cuts should be aligned with the evolving outlook and risks.

43. The fiscal stance in the 2026 draft budget is appropriate and should help support growth. Any further support, if needed, should be temporary and targeted and should take into account risks of pro-cyclicality and inflation. Fiscal consolidation should resume as growth reaches potential. Structural reforms will be needed to accommodate rising age-related spending needs.

44. Financial sector risks are manageable, but proactive management of vulnerabilities needs to continue. Recent macroprudential tightening measures have begun to take effect, but a comprehensive set of measures are needed to curb household debt growth. The authorities should continue to monitor financial risks related to the real estate sector, including project financing and asset quality in NBFIs, and stand ready to act preemptively.

45. Given rising external demand vulnerabilities, revitalizing domestic demand will be essential for making growth more resilient. In addition to cyclical policies, structural reforms, such as lowering household debt, reducing labor market duality, tackling low fertility and rapid population aging, and promoting elderly employment would be key to sustainably boosting domestic demand.

46. Policies to diversify export products and destinations would help strengthen the Korea's resilience to external demand shifts. The authorities' plans, supported by the EGS, to harness the growth potential from the development of digital and cultural services through more

targeted support to innovative business models and SMEs are welcome. Sustaining innovation and promoting AI adoption, particularly among smaller firms, is also essential. Further diversifying export destinations and supply chains through deeper regional trade integration would help mitigate global trade policy uncertainty. The external position in 2024 was broadly in line with the level implied by medium-term fundamentals and desirable policies.

47. Reforms to increase productivity and enhance capital allocation would enable higher potential growth. Efforts to reduce the productivity gap between SMEs and larger firms and alleviate the regulatory burden in service sectors should continue. Sustaining innovation and harness AI-driven productivity gains will be key to raising long-term productivity. Targeted training and reskilling programs would help mitigate AI transition risks and support the employment of elderly workers. The authorities should continue to build on recent capital and FX market reforms to enhance Korea's attractiveness for investment and reduce the Korea discount.

48. Structural fiscal reforms remain critical to accommodate rising age-related spending pressures. Policy priorities to create fiscal space include pension reform, increasing revenue mobilization and prioritizing spending. A medium-term fiscal anchor, supported by a credible MTFF, can enhance policy frameworks resilience by balancing flexibility to respond to shocks with long-term fiscal sustainability.

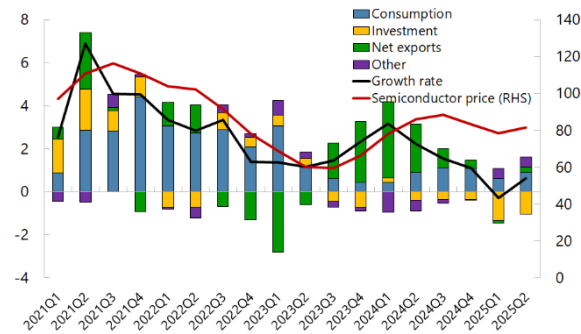
49. It is recommended that the next Article IV consultation be held on the standard 12-month cycle.

Figure 1. Real Sector Developments

Economic growth has decelerated in 2025H1...

Contribution to Growth (y/y)

(LHS: in y/y percent change; RHS: index)

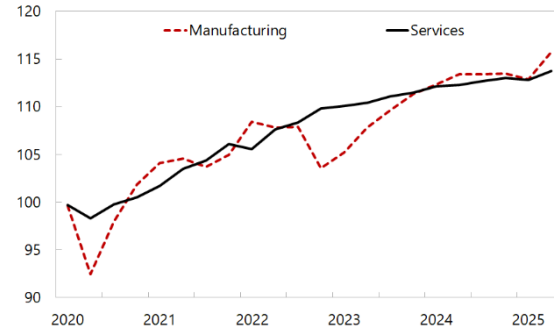


Sources: Haver Analytics; CEIC; and IMF staff calculations.

...driven by a slowdown in services...

GDP by Industry

(Index, 2019 Average=100)

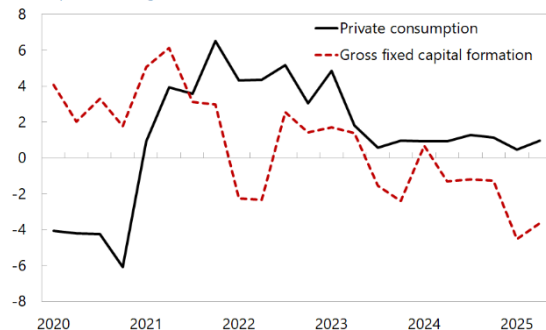


Sources: Haver Analytics; and IMF staff calculations.

...and subdued private consumption and continued weakness in investments.

Private Consumption and Gross Fixed Capital Formation

(In Y/Y percent change)

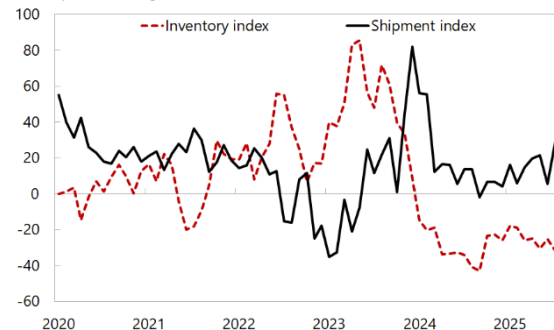


Sources: Haver Analytics; and IMF staff calculations.

Semi-conductor shipments have remained robust in 2025 despite export slowdown amid trade policy uncertainty...

Semi-conductor Inventory and Shipment Index

(In Y/Y percent change)

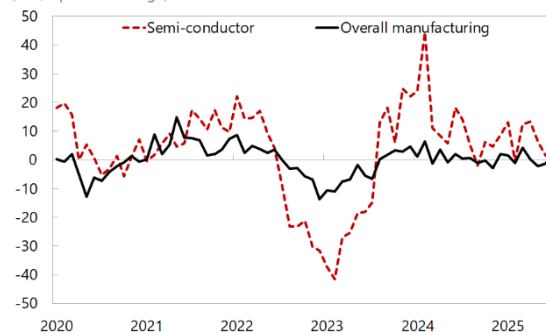


Sources: Haver Analytics; and IMF staff calculations.

...while manufacturing production capacity moderating.

Manufacturing Capacity Utilization

(In Y/Y percent change)

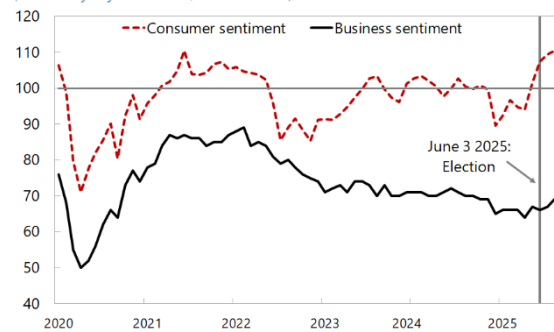


Sources: Haver Analytics; and IMF staff calculations.

Consumer sentiment has improved after the elections.

Consumer and Business Sentiment Index

(Seasonally adjusted index, 100 = neutral)



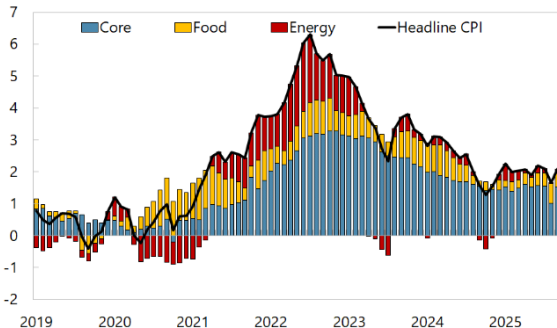
Sources: Haver Analytics; and IMF staff calculations.

Figure 2. Inflation Developments

Headline inflation is converging towards the target (2 percent) despite occasional upticks in food and energy prices.

Contribution to Inflation

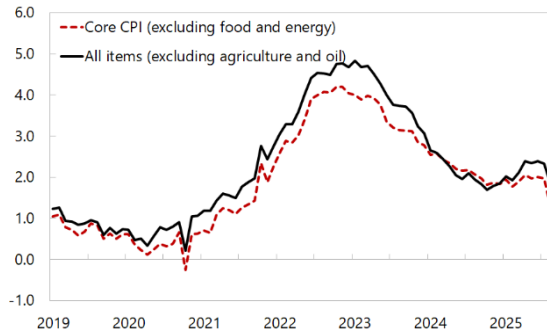
(In y/y percent change and contributions in percentage points)



After declining gradually since 2023, core inflation has remained close to the target since mid-2024.

Measures of Core Inflation

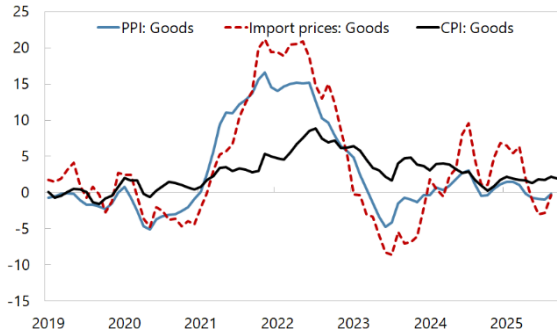
(In y/y percent change)



Goods inflation has been declining since 2023...

Prices of Goods

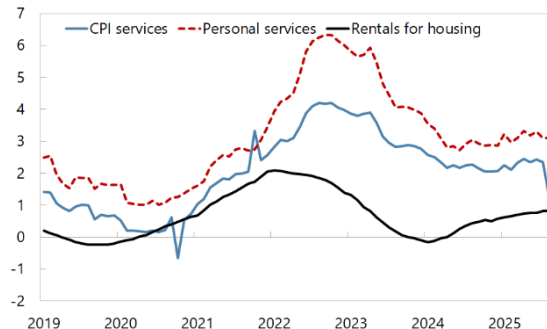
(In y/y percent change)



...while services inflation has been increasing moderately since mid-2024.

Prices of Services

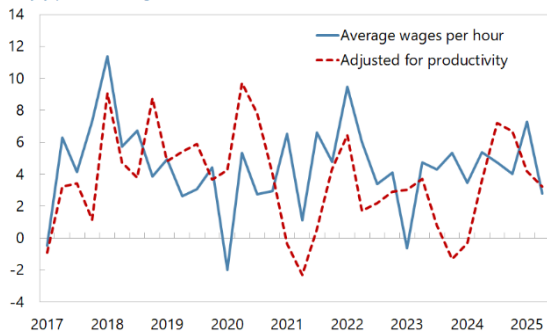
(In y/y percent change)



Wage growth has increased in recent quarters, albeit at a moderate pace.

Average Wage

(In y/y percent change)



Short-term inflation expectations have declined steadily, while medium-term expectations remain well-anchored.

Inflation Expectations

(In percent)

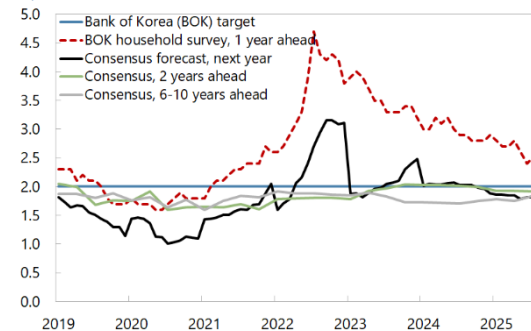
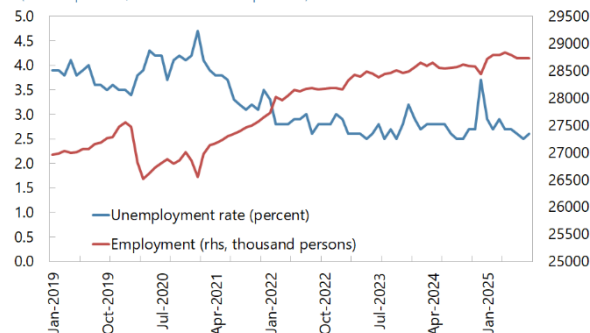


Figure 3. Labor Market Developments

Notwithstanding a temporary uptick in December 2024, unemployment remains low by historical standards.

Unemployment and Employment

(LHS: in percent; RHS: in thousand persons)

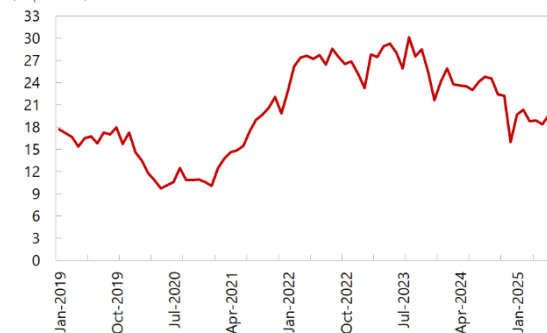


Sources: Haver Analytics; and IMF staff calculation.

Labor market softened further starting late 2024.

Labor Market Tightness

(In percent)

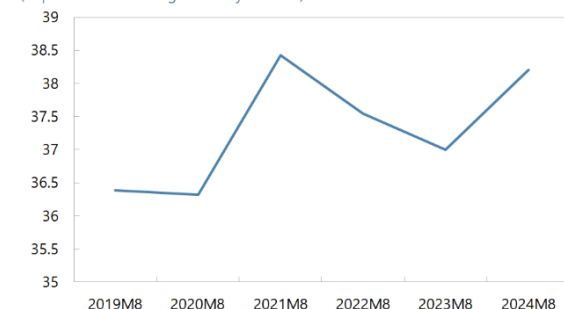


Sources: Haver Analytics and IMF staff calculation.

The share of non-regular workers also recently increased.

Employment Share of Non-Regular Workers

(In percent of total wage & salary workers)

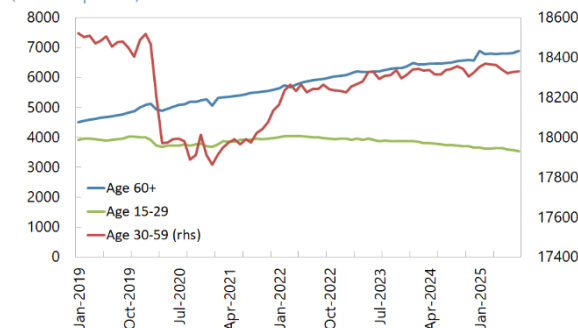


Sources: KOSIS, economically active population survey, additional survey by employment type; and IMF staff calculations.

Elderly employment continues to increase while youth employment is falling.

Employment by Age Groups

(thousand persons)

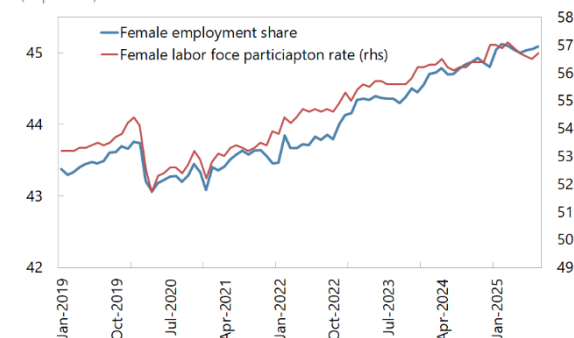


Sources: Haver Analytics; and IMF staff calculations.

Female labor force participation and employment continue to rise...

Female Employment Share and Labor Force Participation

(In percent)

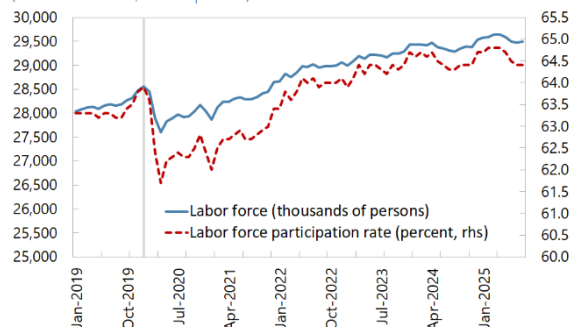


Sources: Haver Analytics.

...while overall labor force participation has decreased lately.

Labor Force and Labor Force Participation

(LHS: in thousands; RHS: in percent)



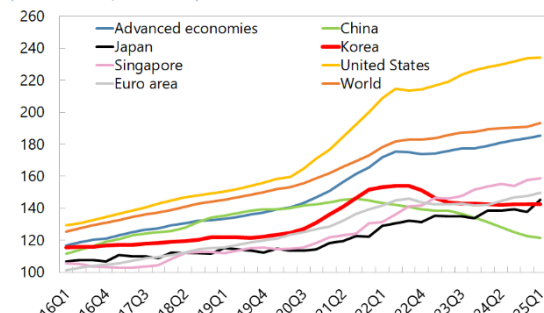
Sources: Haver Analytics; and IMF staff calculation.

Figure 4. Real Estate Market Developments

Following significant adjustments in 2022-23, housing prices stabilized in 2024...

Residential Property Price Index

(Nominal Index, 2010 = 100)

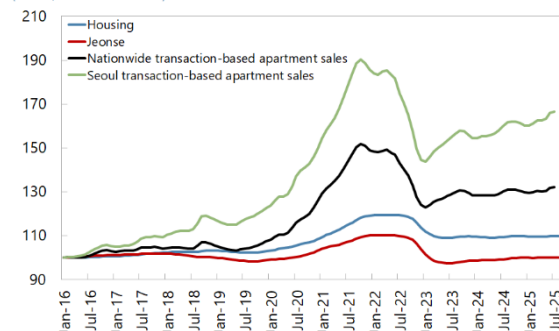


Source: BIS

... rebounding recently in some Seoul districts.

Housing Price Index

(Index, Jan 2016 = 100)

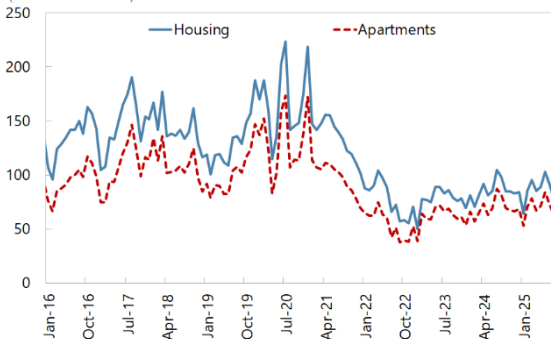


Sources: CEIC, Korea Real Estate Board; and IMF staff calculations.

Housing transactions have stabilized...

Housing Transactions

(In thousands unit)

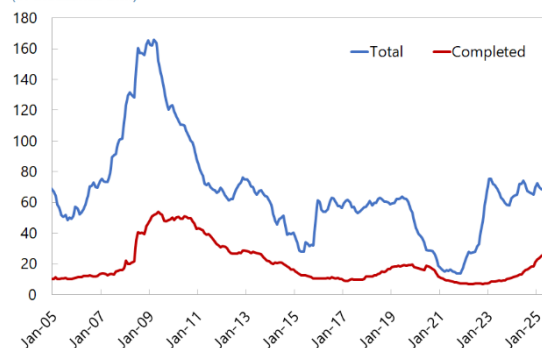


Source: CEIC, Korea Real Estate Board.

...while inventories of unsold residential properties remain high.

Unsold Residential Properties

(In thousands unit)

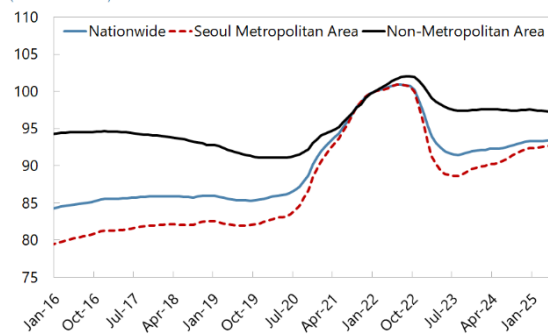


Source: CEIC, Korea Real Estate Board.

The jeonse rental market has risen moderately, driven by the Seoul metropolitan area.

Jeonse Rental Index

(Jan 2022=100)

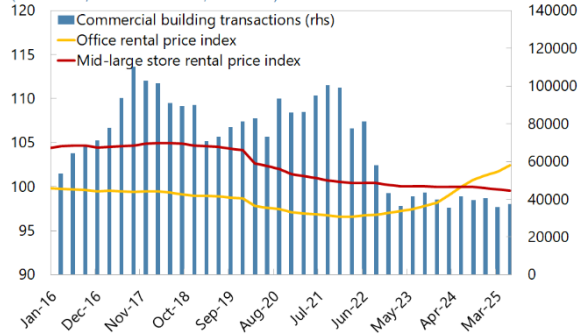


Source: CEIC.

Commercial real estate has seen a rebound in office rental prices, while retail store rental prices remain weak.

Commercial Real Estate Rental Prices and Transactions

(LHS: index, June 2024 = 100, RHS: unit)



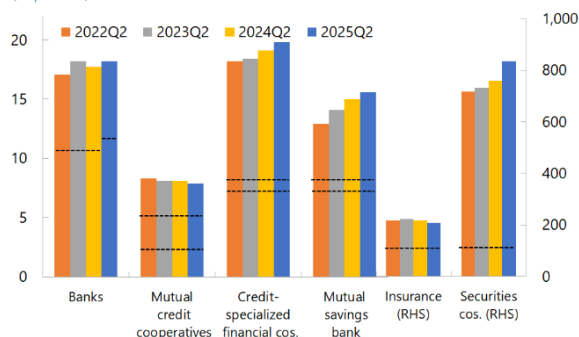
Sources: CEIC, Korea Real Estate Board.

Figure 5. Financial Institution Soundness

Capital ratios are significantly above regulatory standards across institutions.

Financial Institution Capital Adequacy Ratio

(In percent)

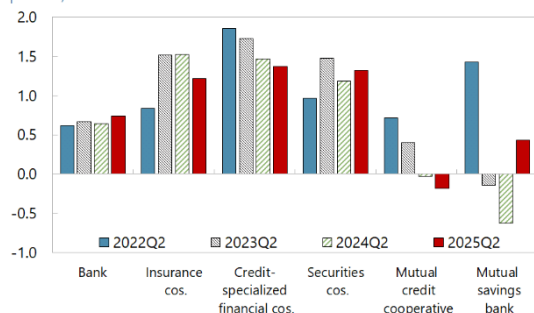


Source: Bank of Korea.

Profitability remains high, except in mutual savings banks and credit cooperatives...

Return on Asset by Financial Sector

(In percent)



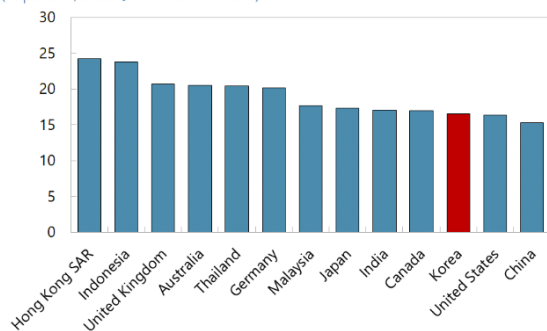
Note: Banks' ROA for 2025Q2 is a preliminary estimate.

Source: Bank of Korea.

Banks are sound, though room exists to catch up on capital ratios...

Regulatory Capital to Risk-Weighted Assets Ratio

(In percent, 2025Q1 or latest available)

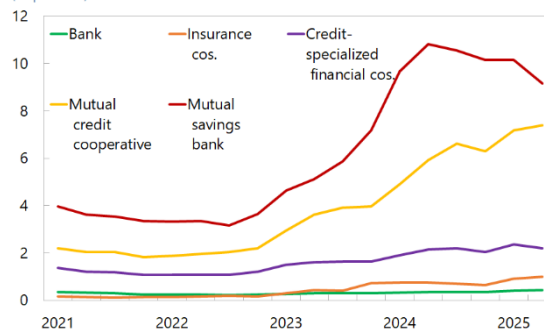


Sources: IMF Financial Soundness Indicator Database; and Financial Supervisory Service.

Overall NPLs are low, though high among mutual savings banks and credit cooperatives.

NPL by Financial Sector

(In percent)

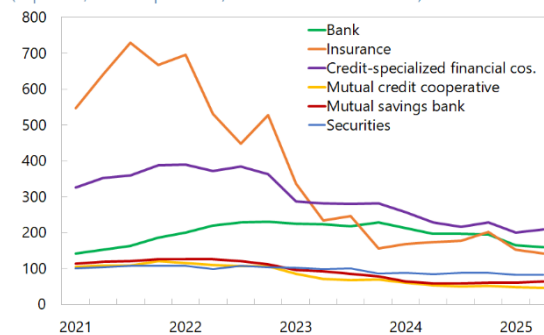


Source: Bank of Korea.

...and loan loss provisions, though sizable, have declined in some institutions.

Loan Loss Provision Coverage

(In percent, loan loss provisions/substandard-or-below loans)

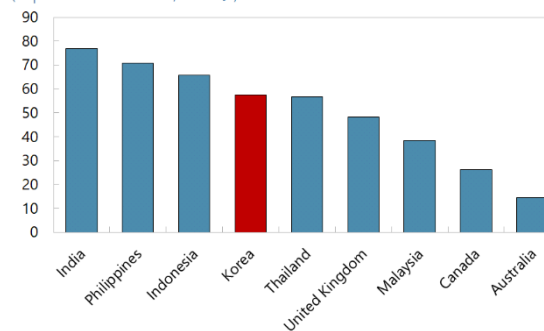


Source: Bank of Korea.

...and NPL provisions with global peers.

Specific NPL Provisions

(In percent of total NPLs, 2024Q2)



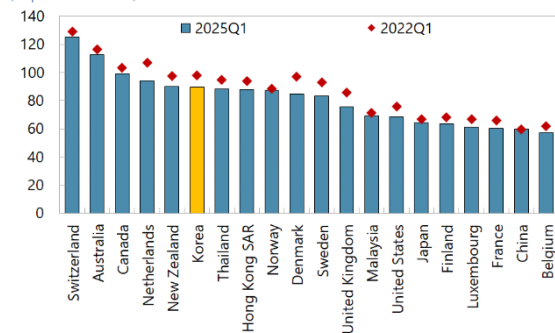
Sources: IMF Financial Soundness Indicator Database; and IMF staff calculations.

Figure 6. Private Sector Debt

Household debt is among the highest in advanced economies.

Household Debt

(In percent of GDP)

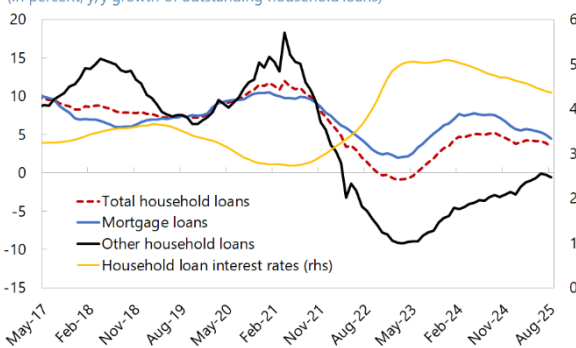


Source: BIS.

Household credit growth has seen a moderate decline, despite easing rates...

Household Loan Growth

(In percent, y/y growth of outstanding household loans)

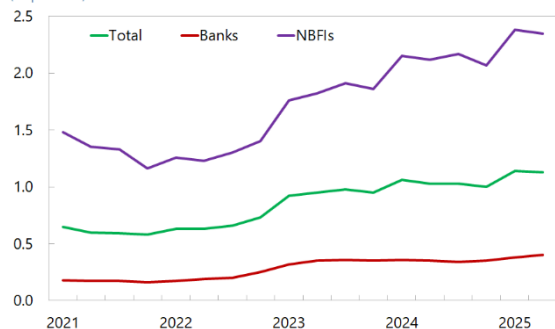


Sources: Haver Analytics; IMF staff calculations.

Household loan delinquency rates are low, albeit rising especially in NBFIs.

Household Loan Delinquency Rates

(In percent)

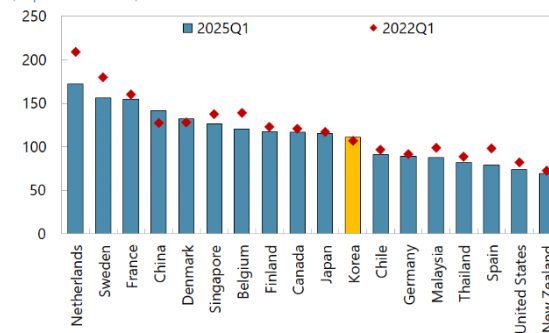


Source: Bank of Korea.

Corporate debt is also relatively high.

Credit to Non-financial Corporations

(In percent of GDP)

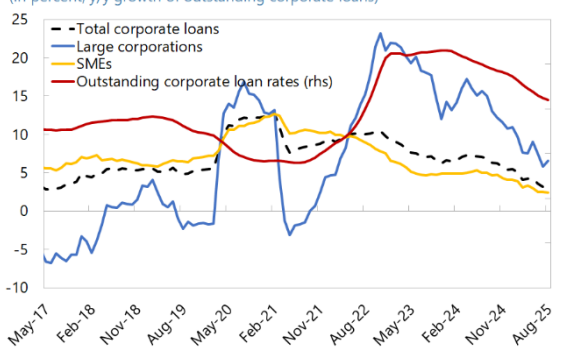


Source: BIS.

...while corporate credit growth has more sharply declined, although remaining strong for large corporations.

Corporate Loan Growth

(In percent, y/y growth of outstanding corporate loans)

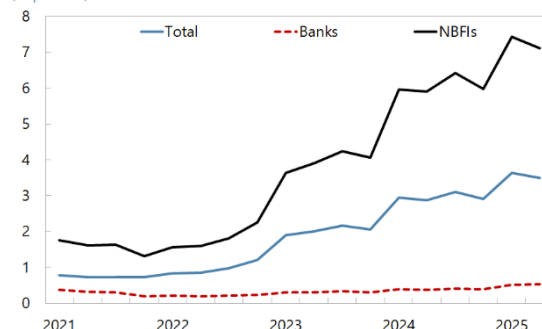


Sources: Haver Analytics; IMF staff calculations.

Similarly, corporate loan delinquency rates, albeit low overall, have also increased, led by NBFIs.

Corporate Loan Delinquency Rate

(In percent)



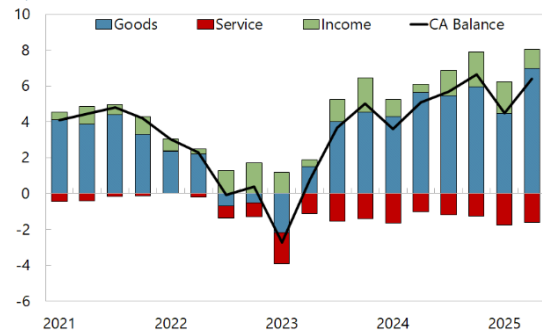
Source: Bank of Korea.

Figure 7. External Sector Developments

The current account surplus has moderated in 2025Q1, as the goods balance slowed down.

Current Account Balance

(In percent of GDP)

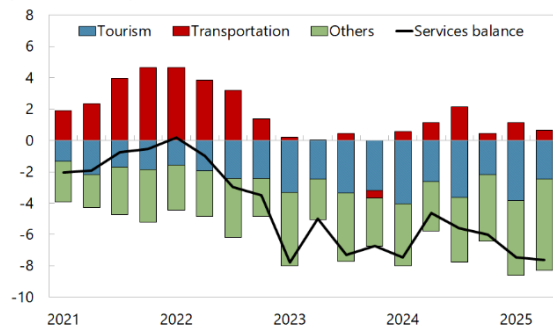


Sources: Haver Analytics; and IMF staff calculations.

The service balance remained in deficit due to growing outbound travel.

Services Account Balance

(In billions of USD)

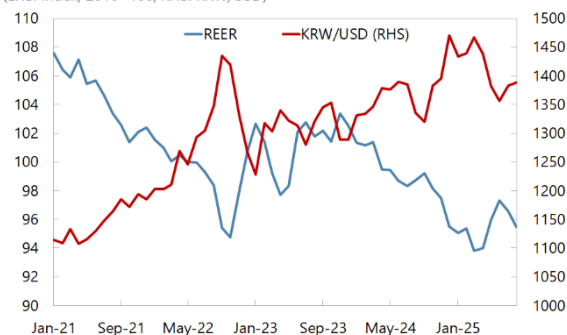


Sources: Haver Analytics; and IMF staff calculations.

The REER has continued on a depreciation trend.

Exchange Rate

(LHS: Index, 2010=100, RHS: KRW/USD)

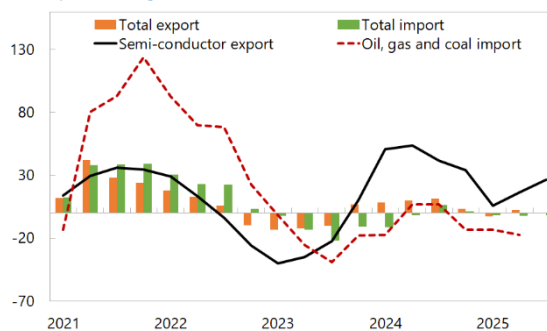


Sources: Haver Analytics; IMF INS database; and IMF staff calculations.

Exports have remained flat due to heightened trade policy uncertainty, while imports have declined.

Goods Export and Import

(In Y/Y percent change)

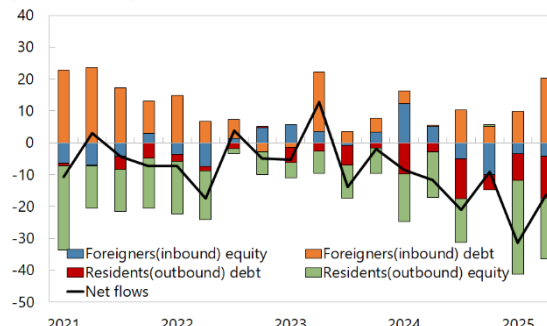


Sources: Haver Analytics; and IMF staff calculations.

Net portfolio outflows have further increased, led by significantly rising resident equity outflows.

Portfolio Capital flows

(In billions of USD)

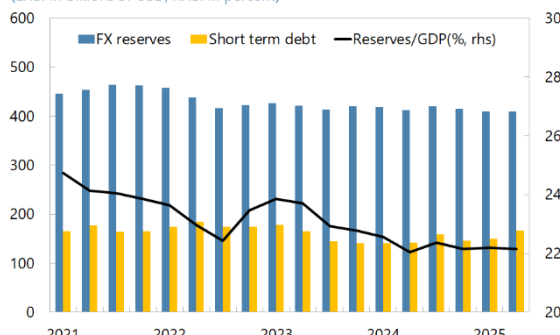


Sources: Haver Analytics; and IMF staff calculations.

Despite a slight decline, FX reserves remain adequate.

Foreign Reserves

(LHS: In billions of USD, RHS: in percent)



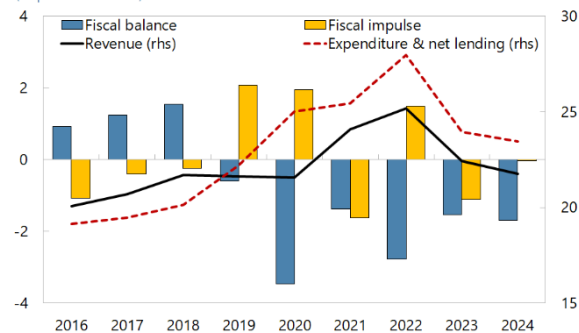
Sources: Haver Analytics; and IMF staff calculations.

Figure 8. Fiscal Sector Developments

The deficit slightly widened in 2024.

Fiscal Balance and Fiscal Impulse

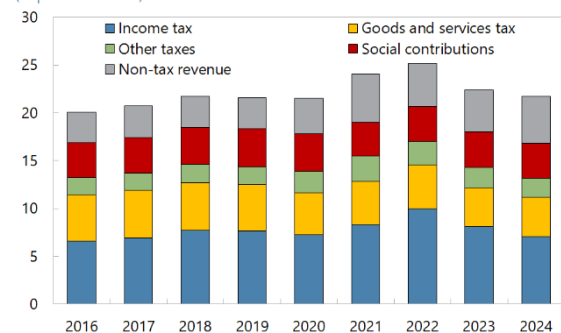
(In percent of GDP)



Revenues declined marginally as income taxes underperformed...

Fiscal Revenue, 2016 - 2024

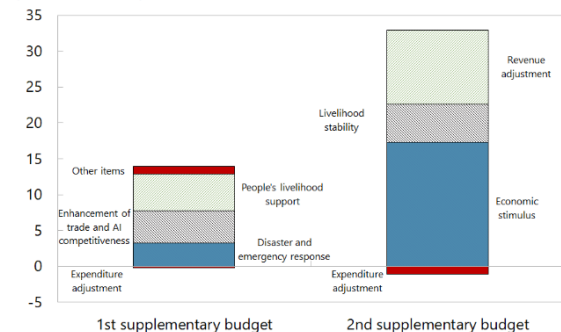
(In percent of GDP)



Fiscal policy became expansionary in 2025...

Decomposition of 2025 Supplementary Budgets

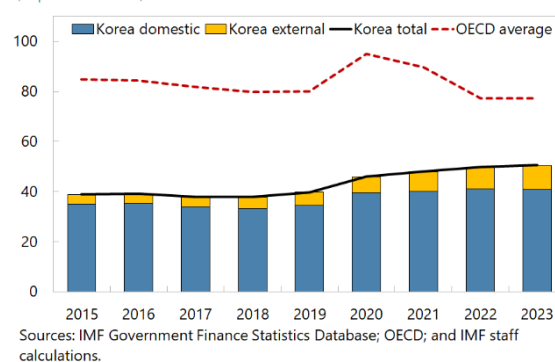
(In trillions of KRW)



Remaining well below the OECD average, debt declined slightly in 2024.

General Government Debt, 2015 - 2023

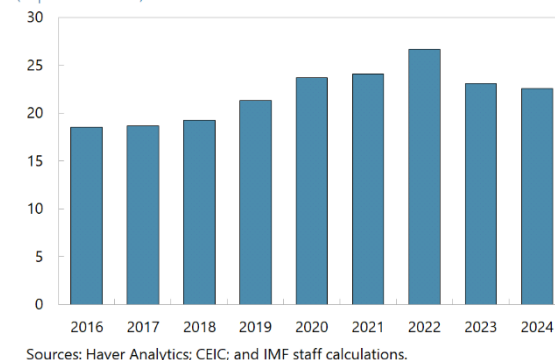
(In percent of GDP)



...while spending remained adjusted slightly.

Fiscal Expenditure, 2016 - 2024

(In percent of GDP)



...and is expected to support the economy in the near-term.

Baseline Fiscal Projections

(In percent of GDP)

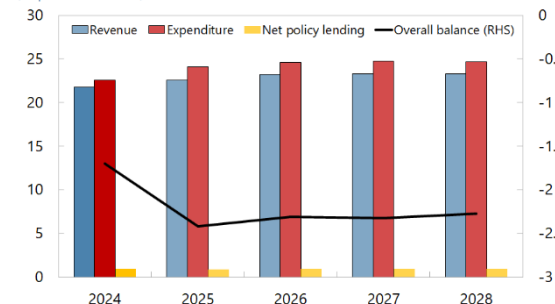


Table 1. Korea: Selected Economic Indicators, 2023–30

	2023	2024	Projection					
			2025	2026	2027	2028	2029	2030
Real GDP (percent change)	1.6	2.0	0.9	1.8	2.2	2.2	2.0	1.9
Total domestic demand	1.4	0.2	0.1	1.4	2.0	1.9	2.0	2.0
Final domestic demand	1.3	0.7	0.3	1.4	2.0	1.9	2.0	2.0
Consumption	2.0	1.4	1.5	1.6	1.9	1.9	2.0	2.0
Gross fixed investment	-0.2	-0.8	-2.6	0.9	2.0	1.9	1.9	1.8
Stock building 1/	0.1	-0.5	0.0	0.0	0.0	0.0	0.0	0.0
Net foreign balance 1/	0.3	1.7	0.5	0.6	0.3	0.4	0.1	0.1
Potential output	2.1	2.0	1.9	1.8	1.8	1.8	1.9	1.9
Output gap (percent of potential GDP)	-0.2	-0.2	-1.1	-1.0	-0.7	-0.2	-0.1	0.0
Saving and investment (in percent of GDP)								
Gross national saving	33.5	35.3	34.4	33.6	33.8	33.9	34.0	34.0
Gross domestic investment	31.9	30.0	29.6	29.7	29.7	29.6	29.5	29.3
Current account balance	1.8	5.3	4.8	3.9	4.1	4.3	4.5	4.7
Prices (percent change)								
CPI inflation (end of period)	3.2	1.9	1.9	1.9	2.0	2.0	2.0	2.0
CPI inflation (average)	3.6	2.3	2.0	1.8	2.0	2.0	2.0	2.0
Core inflation (average)	3.4	2.2	1.9	1.9	2.0	2.0	2.0	2.0
GDP deflator	2.0	4.1	1.2	0.3	1.9	1.9	2.1	2.0
Real effective exchange rate	2.2	-2.2	...	...	...	...	...	...
Central government (in percent of GDP)								
Revenue	22.4	21.8	22.6	23.2	23.3	23.3	23.5	23.5
Expenditure	23.1	22.5	24.1	24.6	24.7	24.7	24.7	24.6
Net lending (+) / borrowing (-)	-0.7	-0.8	-1.5	-1.4	-1.4	-1.4	-1.2	-1.0
Overall balance	-1.5	-1.7	-2.4	-2.3	-2.3	-2.3	-2.1	-2.0
Excluding Social Security Funds	-3.6	-4.1	-4.5	-4.3	-4.3	-4.2	-4.0	-3.8
Cyclically-adjusted primary balance	-0.7	-0.7	-1.3	-1.1	-1.2	-1.2	-1.0	-0.8
Central government debt	45.4	44.6	48.2	51.5	53.7	55.8	57.5	59.1
Money and credit (end of period)								
Overnight call rate	3.9	3.3	...	...	...	...	...	...
Three-year AA- corporate bond yield	3.9	3.3	...	...	...	...	...	...
Credit growth	4.0	4.8	2.2	2.6	3.6	3.8	3.9	4.0
M3 growth	4.2	6.1	...	...	...	...	...	...
Balance of payments and external balance sheet (in billions of U.S. dollars)								
Exports, f.o.b.	643.6	696.2	680.4	678.3	697.8	720.8	744.4	770.0
Imports, f.o.b.	605.9	596.1	585.7	602.8	618.0	635.7	656.9	678.4
Current account balance	32.8	99.0	89.3	75.9	83.3	90.3	98.3	107.1
Export volumes (percent change)	1.1	5.5	2.9	2.2	3.3	3.5	3.1	3.1
Import volumes (percent change)	-4.0	-0.5	0.6	1.2	2.8	2.9	3.4	2.9
Gross international reserves 2/								
Level, end of period	415.4	410.8	418.6	442.2	435.2	437.3	440.3	442.7
In percent of short-term debt								
(residual maturity)	213.3	205.6	207.5	216.9	212.1	211.2	211.6	210.2
Total external debt (in percent of GDP)	36.7	35.9	38.0	39.6	39.7	40.1	40.3	40.6
Memorandum items								
Nominal GDP (trillion won)	2,408.7	2,556.9	2,611.0	2,666.4	2,776.5	2,890.7	3,008.2	3,127.3
Unemployment rate (percent)	2.7	2.8	3.0	3.0	2.9	2.8	2.8	2.8
General government debt (percent of GDP) 3/	50.5	49.8	53.4	56.7	58.9	60.9	62.7	64.3

Sources: National sources; and IMF staff estimates and projections.

1/ Contribution to GDP growth.

2/ Excludes gold. Includes 2021 general SDR allocation.

3/ General government debt includes debt of the central government and local governments.

Table 2. Korea: Balance of Payments, 2023–30
(In billions of U.S. Dollars, unless otherwise indicated, BPM6 sign)

	2023	2024	Projection					
			2025	2026	2027	2028	2029	2030
Current account balance	32.8	99.0	89.3	75.9	83.3	90.3	98.3	107.1
Goods balance	37.7	100.1	94.7	75.5	79.8	85.2	87.5	91.6
Exports	643.6	696.2	680.4	678.3	697.8	720.8	744.4	770.0
Imports	605.9	596.1	585.7	602.8	618.0	635.7	656.9	678.4
Services balance	-26.8	-23.7	-28.9	-25.3	-24.9	-25.5	-25.4	-24.1
Primary income	26.2	26.6	27.7	30.1	32.9	35.3	41.0	44.6
Secondary income	-4.3	-4.0	-4.3	-4.4	-4.5	-4.7	-4.8	-4.9
Capital account balance	0.0	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Financial account balance 1/	35.0	98.3	84.4	60.4	88.3	89.2	96.6	105.7
Portfolio investment	8.3	50.3	44.1	19.5	42.7	42.9	46.2	48.9
Direct investment	13.1	33.4	36.2	37.3	39.4	39.7	41.3	42.3
Financial derivatives	-0.4	9.9	-2.1	0.3	2.0	-3.4	-0.9	-0.2
Other investment	14.0	4.7	6.2	3.3	4.2	10.0	10.0	14.7
Net errors and omissions	-0.8	-4.1	0.0	0.0	0.0	0.0	0.0	0.0
Reserves and related items	-3.0	-3.1	5.2	15.8	-4.7	1.4	2.0	1.6
Net International Investment Position	805.1	1102.0	1209.1	1333.6	1400.3	1502.2	1614.1	1735.1
(In percent of GDP)								
Current account balance	1.8	5.3	4.8	3.9	4.1	4.3	4.5	4.7
Goods balance	2.0	5.3	5.1	3.9	4.0	4.1	4.0	4.0
Services balance	-1.5	-1.3	-1.6	-1.3	-1.2	-1.2	-1.2	-1.1
Primary income	1.4	1.4	1.5	1.6	1.6	1.7	1.9	2.0
Secondary income	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Capital account balance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account balance 1/	1.9	5.2	4.5	3.1	4.4	4.2	4.4	4.7
Portfolio investment	0.4	2.7	2.4	1.0	2.1	2.0	2.1	2.2
Direct investment	0.7	1.8	1.9	1.9	2.0	1.9	1.9	1.9
Financial derivatives	0.0	0.5	-0.1	0.0	0.1	-0.2	0.0	0.0
Other investment	0.8	0.3	0.3	0.2	0.2	0.5	0.5	0.6
Net errors and omissions	0.0	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Reserves and related items	-0.2	-0.2	0.3	0.8	-0.2	0.1	0.1	0.1
Net International Investment Position	43.6	58.8	65.1	68.9	69.4	71.5	73.9	76.4
Memorandum items:								
Gross reserves 2/	415.4	410.8	418.6	442.2	435.2	437.3	440.3	442.7
(in months of imports of goods and services)	6.6	6.5	6.6	6.7	6.4	6.3	6.1	5.9
External debt	677.3	672.9	707.0	766.2	801.7	842.0	881.4	921.4
(in percent of GDP)	36.7	35.9	38.0	39.6	39.7	40.1	40.3	40.6
Short-term external debt (inc. trade credits)	141.5	146.5	148.4	150.6	151.9	153.7	154.8	157.3
Nominal GDP	1844.8	1875.4	1858.6	1936.6	2017.0	2099.7	2184.8	2271.2

Sources: National sources; and IMF staff estimates and projections.
1/ Excludes reserves and related items.
2/ Excludes gold. Includes 2021 general SDR allocation.

Table 3. Korea: Statement of Central Government Operations, 2023–30

			Projection					
	2023	2024	2025	2026	2027	2028	2029	2030
(In trillions of won)								
Revenue	539.9	556.1	589.8	619.0	647.3	673.7	708.0	736.1
Tax revenue	344.1	336.5	368.6	386.8	404.5	421.0	442.4	460.0
Social contributions	88.9	92.8	94.8	99.5	104.0	108.2	113.8	118.3
<i>Of which:</i> Social security contributions	88.9	92.8	94.8	99.5	104.0	108.2	113.8	118.3
Other revenue	106.9	126.8	126.5	132.7	138.8	144.5	151.8	157.8
Expenditure	556.0	576.1	629.5	655.2	686.4	712.7	743.4	768.5
Expense	544.6	564.7	614.2	639.4	669.8	695.5	725.4	749.9
Net acquisition of nonfinancial assets	11.4	11.5	15.2	15.8	16.6	17.2	18.0	18.6
Net lending (+) / borrowing (-)	-16.1	-20.0	-39.6	-36.2	-39.1	-39.0	-35.4	-32.4
Policy lending	20.6	23.5	23.5	25.5	25.4	26.7	27.8	28.9
Overall balance 1/	-36.8	-43.5	-63.1	-61.7	-64.6	-65.8	-63.2	-61.3
Less: Social Security Fund (SSF) balance	50.3	61.2	53.9	52.8	53.9	54.9	56.0	56.0
Managed balance								
(overall balance excl. SSF)	-87.0	-104.8	-117.0	-114.5	-118.4	-120.7	-119.2	-117.4
(In percent of GDP)								
Revenue	22.4	21.8	22.6	23.2	23.3	23.3	23.5	23.5
Tax revenue	14.3	13.2	14.1	14.5	14.6	14.6	14.7	14.7
Social contributions	3.7	3.6	3.6	3.7	3.7	3.7	3.8	3.8
<i>Of which:</i> Social security contributions	3.7	3.6	3.6	3.7	3.7	3.7	3.8	3.8
Other revenue	4.4	5.0	4.8	5.0	5.0	5.0	5.0	5.0
Expenditure	23.1	22.5	24.1	24.6	24.7	24.7	24.7	24.6
Expense	22.6	22.1	23.5	24.0	24.1	24.1	24.1	24.0
Net acquisition of nonfinancial assets	0.5	0.4	0.6	0.6	0.6	0.6	0.6	0.6
Net lending (+) / borrowing (-)	-0.7	-0.8	-1.5	-1.4	-1.4	-1.4	-1.2	-1.0
Policy lending	0.9	0.9	0.9	1.0	0.9	0.9	0.9	0.9
Overall balance	-1.5	-1.7	-2.4	-2.3	-2.3	-2.3	-2.1	-2.0
Less: Social Security Fund balance	2.1	2.4	2.1	2.0	1.9	1.9	1.9	1.8
Managed balance								
(overall balance excl. SSF)	-3.6	-4.1	-4.5	-4.3	-4.3	-4.2	-4.0	-3.8
(In percent of GDP)								
Memorandum items:								
Primary balance (excluding policy lending)	-0.7	-0.7	-1.6	-1.3	-1.4	-1.2	-1.0	-0.8
Central government debt (trillion won)	1,092.5	1,141.2	1,258.2	1,372.7	1,491.1	1,611.8	1,731.1	1,848.4
Cyclically-adjusted primary balance	-0.7	-0.7	-1.3	-1.1	-1.2	-1.2	-1.0	-0.8
Central government debt	45.4	44.6	48.2	51.5	53.7	55.8	57.5	59.1
General government debt	50.5	49.8	53.4	56.7	58.9	60.9	62.7	64.3

Sources: Ministry of Economy and Finance; and IMF staff estimates and projections.

1/ Overall balance is equal to net lending/borrowing minus policy lending.

Table 4. Korea: Financial Soundness Indicators, 2019–2025Q2

	2019	2020	2021	2022	2023	2024	2025Q1	2025Q2
Core FSIs for Deposit takers 1/				(In percent)				
Regulatory capital to risk-weighted assets	15.3	16.5	16.5	16.0	16.7	16.3	16.5	17.1
Regulatory Tier 1 capital to risk-weighted assets	13.2	14.5	14.6	14.1	14.7	14.7	14.9	15.6
Nonperforming loans net of provisions to capital	1.1	1.1	1.2	1.2	0.9	1.2	1.5	1.5
Nonperforming loans to total gross loans	0.3	0.2	0.2	0.2	0.3	0.3	0.4	0.4
Return on assets	0.7	0.7	0.8	0.5	1.0	0.9	1.0	1.1
Return on equity	6.6	6.5	7.4	4.9	11.1	8.8	10.5	11.4
Interest margin to gross income	62.4	60.4	70.1	85.0	73.5	69.8	67.5	55.4
Noninterest expenses to gross income	65.4	63.4	58.4	65.4	54.9	56.0	46.2	47.0
Liquid assets to total assets (Liquid Asset Ratio)	32.1	30.4	30.6	31.2	31.3	30.8	32.5	31.5
Liquid assets to short-term liabilities	110.0	102.2	106.9	97.5	103.8	108.0	113.1	109.3
Net open position in foreign exchange to capital	0.1	0.0	1.5	3.8	4.0	4.6	4.0	4.3

Source: Financial Supervisory Service.

Note: 2024 ~ 2025Q2 are estimates and may be subject to change upon further updates.

1/ Covers 20 entities that report FSI data, accounting for about 3/4 of total assets of all deposit takers.

Table 5. Korea: Monetary Statistics, 2019–24
(In trillions of Won, unless otherwise indicated, end-of-period)

	2019	2020	2021	2022	2023	2024
Monetary Authority						
Net foreign assets	408	418	453	431	425	468
Foreign assets	449	455	516	488	464	513
Foreign liabilities	41	37	62	57	39	44
Net domestic assets	-390	-396	-429	-409	-404	-440
Depository Corporations						
Net foreign assets	612	628	705	676	718	868
Domestic claims on the private sector	3,456	3,770	4,198	4,488	4,669	4,891
Claims on non-financial corporations	1,773	1,964	2,241	2,480	2,650	2,766
Claims on households	1,146	1,234	1,327	1,318	1,304	1,347
Claims on other financial corporations	537	572	630	689	715	778
Monetary Aggregates						
Monetary base	192	222	249	276	274	283
M1	953	1,198	1,372	1,237	1,246	1,298
M2	2,914	3,200	3,614	3,758	3,905	4,160
Liquidity aggregate	5,227	5,679	6,277	6,588	6,788	7,134
	(In percent, Y/Y growth)					
Monetary base	11.3	15.5	12.3	10.9	-0.7	3.4
M2	7.9	9.8	12.9	4.0	3.9	6.6
Claims on the private sector from depository corporations	9.0	9.1	11.3	6.9	4.0	4.8
Claims on non-financial corporations from depository corporations	11.6	10.8	14.1	10.7	6.8	4.4
Claims on households from depository corporations	4.5	7.6	7.5	-0.6	-1.1	3.3

Sources: Bank of Korea; and Haver Analytics.

Annex I. Implementation of Past Fund Advice

	Fund Recommendations	Policy Actions
Monetary Policy	Maintain an agile monetary stance, aligned with the evolving outlook and balance of risks.	The BoK appropriately eased the policy stance as inflation declined, and the output gap widened.
Fiscal Policy	Provide temporary and targeted support if downside risks materialize, while preserving fiscal space.	Fiscal policy turned expansionary in 2025, with two supplementary budgets totaling 1.2 percent of GDP focused on growth and social support.
Housing and Financial	Contain housing-related financial risks through borrower-based macroprudential tools. Support orderly PF restructuring with market-based discipline. Keep market stabilization measures temporary and contingent on financial stress.	A targeted macroprudential package was introduced in June 2025 to curb household debt growth in Seoul. PF soft-landing measures progressed, with over half of unviable projects resolved by mid-2025 and risks managed through stronger capital and provisioning. Liquidity support remained contingent and was not deployed, as financial volatility proved short-lived.
Structural	Adopt a credible fiscal rule to anchor policy and strengthen budget discipline. Reform the pension system by improving sustainability, adequacy, and equity. Strengthen financial sector resilience to support sustainable growth. Enhance stock market efficiency and deepen FX markets to attract long-term investment. Promote competitiveness of the services sector and export diversification.	The rule-based fiscal framework proposal remains under consideration. Pension reforms including raising the contribution rate and the income replacement rate were approved in March 2025. Prudential standards for NBFIs were tightened, including capital, provisioning, and risk weights; sectoral taskforces were established to close regulatory gaps. Corporate governance reforms adopted in 2025 enhanced transparency, aligned shareholder incentives, and modernized corporate practices; FX market access also improved. The authorities' new trade policy strategy [is expected to] support the development of service exports.

Annex II. The Economic Growth Strategy

1. The new administration's Economic Growth Strategy aims to comprehensively transform the Korean economy into a leading innovation-driven economy. Announced in August 2025, the strategy aims to raise potential growth rate to 3 percent. It has the following four pillars aiming to position Korea among the world's top three AI powerhouses and top five global powers:

- **Technology-driven growth.** This pillar aims to advance AI technology development, promote an economy and society-wide adoption ("AI transformation"), and foster globally leading industries capable of driving future growth ("ultra-innovative economy"). The pillar will implement 30 flagship projects identified by the strategy and which will be funded through annual budgets and a new National Growth Fund (150 trillion KRW), which will be financed by the issuance of government-guaranteed "Advanced Strategic Industries Fund" bonds and private investments.

Text Table 1. Key Sectors of Technology-driven Growth	
AI transformation	- Support the integration of AI into key manufacturing sectors such as vehicles, shipbuilding, home appliances, drones, robots and semiconductors. - Introduce AI into all public services including welfare and employment services, tax administration, and new drug review. - Accelerate AI development by nurturing AI professionals, enhancing access to data, and building a scalable data infrastructure.
Ultra-innovative economy	- Achieve technological self-reliance in high-tech materials and components, including silicon carbide (SiC) semiconductors and superconductors. - Address climate and energy challenges with solar and offshore wind power, green hydrogen and small modular reactors (SMRs), smart agriculture and fisheries, and ultra-high-resolution satellites. - Pioneer new export markets through "K-Boom" projects including K-bio and pharmaceuticals, K-cultural contents, K-beauty, and K-food.
Source: The Korean authorities.	

- **Inclusive growth.** This pillar aims to promote inclusive growth by moving away from a unipolar Seoul-centric model to a five-pole, three-specialized-region development strategy. It aims to cultivate regional growth to achieve balanced regional development, focusing on 30 flagship projects. And it seeks to support AI-based startups and ventures, boost SME productivity, strengthen the competitiveness of small merchants through digitalization, strengthen the social safety net, and tackle low fertility and aging challenges.
- **Fair growth.** This pillar aims to enhance growth by fostering mutually beneficial cooperation between large and small businesses, while building a fair and safe labor market. It includes

measures to establish fair trade practices and an ecosystem for mutual growth and cooperation between large corporations and SMEs, reinforce support for SMEs in preventing technology theft, reduce labor market duality, and improve industrial safety through greater accountability.

- **Strengthening institutional framework.** This pillar aims to strengthen economic infrastructure through capital market reform, regulatory rationalization, and significant public sector innovation. The strategy aims to achieve the "Korea Premium" by enhancing corporate governance and advancing Korea's inclusion in the MSCI Developed Markets Index. It also aims to reform regulations that fall short of global standards, focusing on those affecting the flagship projects. It will also seek to comprehensively reform the public sector to support a highly innovative economy, including through performance-oriented fiscal management, a new management evaluation framework for SOEs, aligning research institution goals with national missions, specialization of national and private universities and increased support for STEM fields.

Annex III. External Sector Assessment

Overall Assessment: <i>The external position in 2024 was broadly in line with the level implied by medium-term fundamentals and desirable policies.</i> The strong recovery of semiconductor exports has significantly increased the CA surplus in 2024. The surplus is projected to narrow in 2025 as higher effective U.S. tariffs weigh on exports, despite weaker imports and some export reallocation. In the medium term, it is expected to converge toward the estimated norm as a result of normalization of the semiconductor cycle, and declining demand in major trading partners. Potential Policy Responses: Over the medium term, increasing fiscal space to meet aging-related needs, orderly deleveraging of private debt, boosting innovation to maintain exports competitiveness, and diversifying export destinations and supply chains, would help keep the external position in line with fundamentals. Exchange rate flexibility, with intervention limited to preventing disorderly market conditions, would help the economy absorb external shocks. Industrial policies should remain narrowly targeted to specific objectives where externalities or market failures prevent effective market solutions and, even then, they should aim to minimize trade and investment distortions.						
Foreign Asset and Liability Position and Trajectory	Background. The NIIP has been positive since 2014 and has significantly increased in the past decade. In 2024, both the estimated nominal value of NIIP (\$1.1 trillion) and the NIIP-to-GDP ratio (59 percent) increased significantly relative to 2023. The NIIP is projected to rise further in 2025 and over the medium term, to over 75 percent of GDP in 2030, on the back of continued CA surpluses. Assessment. The large and positive NIIP is a key factor supporting external resilience. Foreign asset holdings are diversified, with 40 percent in equity or debt securities. About 60 percent of foreign assets are denominated in US dollars, implying that depreciation of the won against the dollar can have large positive valuation effects in aggregate. The structure of liabilities further limits vulnerabilities, with direct investment and long-term loans together accounting for 57 percent of total liabilities and 65.7 percent of liabilities denominated in Korean won.					
2024 (% GDP)	NIIP: 59.0	Gross Assets: 133.6	Debt Assets: 57.1	Gross Liab.: 74.7	Debt Liab.: 35.8	
Current Account	Background. The CA surplus increased from 1.8 percent of GDP in 2023 to 5.3 percent in 2024, mainly driven by a strong rebound in semiconductor exports. From a saving-investment perspective, a significant drop in the investment rate drove the increase in surplus in 2024 despite a moderate increase in the saving rate. Since the pandemic, developments in the CA have been driven significantly by the global semiconductor cycle. Following a sharp decrease by about 2 percent of GDP in 2023, semiconductor exports showed a strong recovery, up by 44 percent in 2024. In the medium term, the CA is projected to be 4.7 percent of GDP by 2030, reflecting the need to build precautionary savings to meet aging-related needs and an orderly deleveraging of private debt. Assessment. The EBA CA model estimates the cyclically adjusted CA at 5.5 percent of GDP. IMF staff estimates the CA norm to be 4.7 percent of GDP, with a standard error of 0.9 percent of GDP. Based on the CA model, staff estimates the 2024 CA gap midpoint at 0.8 percent of GDP, with a range of –0.1 to 1.7 percent of GDP. The net contribution of the relative policy gap is 1.1 percent of GDP, with contribution from a lower health spending and tighter fiscal stance outweighing a more positive credit gap compared to the rest of the world.					
2024 (% GDP)	CA: 5.3	Cycl. Adj. CA: 5.5	EBA Norm: 4.7	EBA Gap: 0.8	Staff Adj.: 0	Staff Gap: 0.8
Real Exchange Rate	Background. The REER depreciated by 2.2 percent in 2024 on average relative to 2023, reversing nearly all the appreciation in 2023. The REER depreciation in 2024 was mainly driven by won depreciation against currencies of some major trading partners, notably the US dollar and Chinese Yuan. As of March 2025, the REER had depreciated by about 5.4 percent relative to the 2024 average. Assessment. The EBA CA gap implies a REER undervaluation of 2.4 percent (applying an estimated elasticity of 0.33). The EBA REER index model estimates an undervaluation of 6.5 percent, while the EBA level model estimates a 7.2 percent undervaluation. Consistent with the IMF staff CA gap, staff assesses the REER gap to be in the range of –5.1 to 0.3 percent, with a midpoint of about –2.4 percent.					
Capital and Financial Accounts: Flows	Background. Net capital outflows, while on a declining trend since 2016, are estimated to rebound to 5 percent of GDP in 2024 from 2 percent of GDP in 2023. Net FDI and portfolio outflows picked up by 1.8 percent and 2.7 percent of GDP, reflecting both an increase in residents' outbound investment and a reduction of inflows.					

and Policy Measures	Assessment. Amid multiple global shocks in recent years, Korea has demonstrated remarkable resilience in weathering short-term capital flow volatility. The recent inclusion of Korea's government bonds in the World Government Bond Index should lead to higher capital inflows from a diversified investor base. The present configuration of capital flows appears sustainable over the medium term, mirroring the projected increase in the CA surplus and NIIP.
FX Intervention and Reserves Level	Background. Korea has a floating exchange rate. Based on IMF staff estimates and published data, FX intervention since 2015 has been two-sided. In 2024, FX intervention slightly increased from net sales \$9.6 billion (0.5 percent of GDP) in 2023 to \$11.2 billion (0.6 percent of GDP), mostly conducted during periods of heightened exchange rate volatility, induced by changing expectations of monetary policies in major economies in the second quarter and domestic political uncertainty in the fourth quarter. As of end-2024, reserves stood at \$416 billion, lower than the year-earlier \$420 billion. Assessment. Exchange rate volatility generally does not pose significant economic challenges for Korea, given limited currency mismatches and manageable pass-through to consumer prices. FX market depth while ranking higher than in most emerging markets, still lags advanced economy peers. In periods of high global financial market uncertainty, there could be herding behavior amid temporarily shallow markets, leading to sharp FX movements and impaired market functioning. Intervention should thus remain limited to preventing disorderly market conditions. The recently introduced FX market reforms are expected to deepen FX markets, thus improving the efficiency and resilience of the currency market. As of end-2024, FX reserves were about 22 percent of GDP, 2.1 times short-term debt, 6.4 months of imports, or 13 percent of M2. Systemwide stress tests also show that reserves provide sufficient FX liquidity buffers under a wide range of plausible shocks.

Annex IV. Key Measures to Strengthen Household Debt Management

Measure	Details	Objective
June 27, 2025 package (all effective June 28, 2025 unless mentioned otherwise)		
Reduction of the annual target volume of household loans	Financial companies (all financial sectors): 50 percent reduction of the net increase target for the second half of the year.	To reduce overall household debt growth.
	Government-sponsored policy loans: 25 percent reduction of the annual supply plan previously set.	To reduce overall household debt growth.
Restriction on size and maturity of mortgage loans	Application of a maximum limit on mortgage loans of up to KRW600 million for house purchases in Seoul MET and SRZ.	To prevent use of excessive loans for purchasing highly priced homes.
	Cap on the maturity of mortgage loans (30 years) in Seoul MET and SRZ.	To strengthen DSR discipline and curb excessive borrowing.
	Reduction of the maximum level of mortgage loans for livelihood stability purposes* to KRW100 million for single house owners in Seoul MET and SRZ. Multiple house owners in Seoul MET and SRZ will be banned from taking out new loans for livelihood stability purposes.	To prevent abuse of livelihood stability facilities.
	Reduction of maximum limits on key government-sponsored policy loans (- 20 percent across the board) in all regions: (i) <i>Didimdol</i> loans (house purchases) and (ii) <i>Beotimmok</i> loans (<i>jeonse</i> contracts).	To refocus public support towards lower-income households and public housing unit supply.
Tightening of loan-to-value (LTV) ratios for mortgage loans	Tightening of LTV ratios for current homeowners aiming to purchase an additional home in Seoul MET (from 60 percent to 0 percent) or in SRZ (from 30 percent to 0 percent) (= <i>current homeowners are no longer allowed to purchase an additional house with mortgage loans</i>).	To curb housing speculation and contain price pressures.
	Tightening of the LTV ratio (from 80 to 70 percent) for first-time homebuyers in Seoul MET and SRZ.	To curb excessive lending in the Seoul MET and SRZ.
Restrictions on <i>jeonse</i> loans	Ban on <i>jeonse</i> loans that have a condition of ownership transfer in Seoul MET and SRZ.	To prevent <i>jeonse</i> from being used for speculative acquisitions.
	Tightening of the guarantee ratio on <i>jeonse</i> loans in Seoul MET and SRZ (from 90 percent to 80 percent), effective July 21, 2025.	To encourage more rigorous credit evaluation.
Other measures to curb speculation	Requirement to move within six months into a new house purchased with a mortgage loan in the Seoul MET and SRZ.	To avoid recourse to mortgage loans for speculation.
	Application of maximum limit on credit loans to 100 percent of individual borrowers' annual income.	To prevent use of credit loans for house purchases.
September 7, 2025 package (all effective September 8, 2025)		
Tightening of LTV ratios for mortgage loans	Tightening of the LTV ratio (from 50 percent to 40 percent) for homebuyers in SRZ.	To contain demand for loans in SRZ and help improve financial soundness.
	Tightening of the LTV ratio to 0 percent for housing business entities in Seoul MET and SRZ. (= <i>housing business entities are no longer allowed to purchase homes with mortgage loans</i>). Exemptions may be granted by the Ministry of Land, infrastructure and Transport for newly built housing units when there are concerns about potential shortages in rental housing.	To restrict possibilities of bypassing tightened LTV rules.
Restrictions on <i>jeonse</i> loans	Alignment of maximum <i>jeonse</i> loan amounts available to single-home owners from guarantee institutions (SGI, HF, HUG) to KRW200 million for <i>jeonse</i> loans in Seoul MET and SRZ.	To manage the pace of <i>jeonse</i> loan growth.

<i>Measure</i>	<i>Details</i>	<i>Objective</i>
September 19, 2025 package		
Capital regulation for banks	Increase of the minimum risk weight applied to banks' domestic home mortgage loans from 15 to 20 percent (effective April 2026), concurrent with clarifying the conditions under which banks can apply favorable risk weights to equity exposures and fund investments.	To facilitate the channeling of capital away from real estate toward more productive sectors, such as venture business.
October 15, 2025 package (all effective October 16, 2025 unless mentioned otherwise)		
Restriction on size of mortgage loans	Application of different maximum limits on mortgage loans for house purchases in Seoul MET and SRZ according to the house price (market value): KRW600 million for houses worth KRW1.5 billion or less, KRW400 million for houses worth KRW1.5-2.5 billion, and KRW200 million for houses worth KRW2.5 billion or more. This excludes mortgage loans for livelihood stability purposes*.	To prevent use of excessive loans for purchasing highly priced homes.
Tightening of loan regulations in 'regulated areas'	Extension of SRZ designation to all 25 districts in Seoul and 12 areas in Gyeonggi Province.	To curb excessive lending in high-demand areas.
	Designation of SRZ as land transaction permit zones , requiring home buyers to reside in that home for at least two years (effective October 20, 2025).	To avoid recourse to mortgage loans for speculation.
	Tightening of the LTV ratio (from 70 to 40 percent) for first-time homebuyers (including single-home owners who plan to sell existing homes) in regulated areas.	To curb housing speculation and contain price pressures.
	Restrictions on access to: (i) jeonse loans for owners of apartments worth KRW300 million or more; (ii) house purchases worth KRW300 million or more for current <i>jeonse</i> loan holders; (iii) house purchases for borrowers with credit loans exceeding KRW100 million for one year from the date of the loan; (iv) additional house purchases for single-home owners handling relocation loans; (v) mortgages loans for businesses other than housing-related.	To curb excessive lending in high-demand areas.
Enhancement of stressed DSR rule	Increase of the additional stress rate applied to mortgage loans in Seoul MET and SRZ (lower bound) from 1.5 percent to 3.0 percent when calculating the borrower's debt service ratio (DSR).	To strengthen DSR discipline and reflect the possibility of interest rate fluctuations.
	Inclusion of interest repayment amounts for jeonse loans in the calculation of the DSR for single-home owners receiving these loans as tenants in Seoul MET and SRZ (effective October 29, 2025).	To strengthen DSR discipline and manage the pace of <i>jeonse</i> loan growth.
Capital regulation for banks	Early application of the increase in minimum risk weight applied to banks' domestic home mortgage loans, now effective January 1, 2026 (instead of April 2026).	To facilitate the channeling of capital away from real estate toward more productive sectors.

Source: Financial Services Commission.

Seoul MET = Seoul Metropolitan area. SRZ = speculation regulated zones (Gangnam, Seocho, Songpa and Yongsan districts prior to the extension of the designation as part of the October 15, 2025 package).

* Livelihood stability purposes refer to housing-collateralized loans used to meet essential financial needs other than home purchases, such as living expenses, education, medical costs, or *jeonse* deposit repayments. These loans may be offered through both government-sponsored programs and commercial banks.

Annex V. Sovereign Risk and Debt Sustainability Assessment

1. Background. After reaching 2.0 percent in 2024, the growth recovery was temporarily disrupted by domestic political and global trade policy uncertainty. Growth is projected at 0.9 percent in 2025 as private consumption begins to recover in the second half of the year, supported by more accommodative fiscal and monetary policies and easing political uncertainty. The revenue shortfall in 2024, only partially offset by spending cuts, has led to a widening of the fiscal deficit to 1.7 percent of GDP in 2024, up from 1.5 percent in 2023. Both headline and core inflation continued to decline gradually toward the 2 percent target, reaching 2.1 and 2 percent y/y respectively in July 2025. The real effective exchange rate depreciated on average by 4.3 percent through May 2025 relative to 2024. Since late 2024, the BoK has eased monetary policy, cutting policy rates by 100 basis points to 2.5 percent by May 25, and maintaining an accommodative stance. To support growth, the fiscal policy has shifted toward a more expansionary stance, with the central government deficit projected to widen to 2.4 percent of GDP in 2025.

Baseline Scenario

2. Macroeconomic assumptions: Real GDP is projected to rebound by 1.8 percent in 2026, driven by easing uncertainties, the full effect of accommodative policies, and favorable base effects. The negative output gap is expected to widen to 1.1 percent in 2025 before gradually closing as domestic demand strengthens and exports recover amid reduced global trade policy uncertainty. Headline and core inflation are forecast to moderate to 1.9 percent in 2025 and 2026—reflecting the negative output gap, an appreciated KRW, and lower oil prices—and to hover around 2 percent over the medium term. The yield on the 10-year U.S. Treasury bond has reached 4.4 percent in July.

3. Debt trajectory: The central government's primary deficit is projected at 1.6 percent of GDP in 2025, an increase of one percentage point from 2024, reflecting a more expansionary fiscal stance to support growth. Over the medium term, the primary deficit is expected to narrow as new tax reforms boost revenue and the authorities shift to a contractionary stance. The interest-growth differential remains favorable. Fiscal deficits excluding the Social Security Fund are estimated at 4.5 percent in 2025, declining gradually to 3.8 percent by 2030, although continued policy lending will sustain financing needs. Central government debt is projected to rise from 44 percent of GDP in 2024 to 59 percent by 2030.

4. Realism: Baseline forecasts fall within historical error bands, and the planned fiscal adjustments are realistic by both domestic and cross-country standards. Key drivers of debt dynamics align with past patterns: while slower medium-term real GDP growth is expected to increase debt, a narrower primary deficit indicates fiscal consolidation relative to the pandemic period. Projections for the debt-to-GDP ratio and cyclically adjusted primary balance are reasonable in the context of Korea's historic experience and international benchmarks. Weaker GDP growth and expansionary fiscal stance has raised the debt-to-GDP ratio compared with last year's debt sustainability assessment (Annex II, IMF Country Report No. 25/41). The real GDP growth over the medium term is projected to be below the 10-year historic average, reflecting a slowdown in

productivity growth. This is further supported by baseline growth forecasts, which remain below those implied by historical fiscal multipliers.

5. Vulnerabilities: Long-term risks are significant as aging-related expenditures on health, welfare, and social security are expected to rise sharply due to demographic shifts driven by low fertility and population aging. These pressures will result in increasing debt levels and gross financing needs under the baseline. Comprehensive reforms—particularly pension reform and enhanced revenue mobilization—are essential to mitigate these long-term fiscal challenges.

Figure 1. Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
Overall	...	Low	The overall risk of sovereign stress is low, reflecting relatively low levels of vulnerability in both the near term and the medium term.
Near term 1/			
Medium term	Low	Low	Medium-term risk is assessed as low, in line with the mechanical signal, reflecting a stable debt trajectory and manageable gross financing needs, which are supported by the stable primary balance, steady economic growth, and relatively low initial debt levels by advanced economy benchmarks.
Fanchart	Low	...	
GFN	Low	...	
Stress test	Cont. Liabty.	...	
Long term	...	High	Long-term risks are high, as increased aging-related expenditures on health, welfare, and social security feed into debt dynamics, resulting in increasing debt level and gross financing needs, as indicated in the long-term modules.
Sustainability assessment 2/	Not required for surveillance countries	Sustainable	
Debt stabilization in the baseline			No
DSA Summary Assessment			
Commentary: Korea faces a low overall risk of sovereign stress, with debt remaining sustainable. The debt level remains low compared to advanced economies. The debt composition is favorable. Medium-term risks are low. In the long run, challenges resulted from the low fertility rate and an aging population are expected to exert upward pressure on expenditures and, consequently, on debt levels and fiscal sustainability.			

Source: Fund staff.

Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.

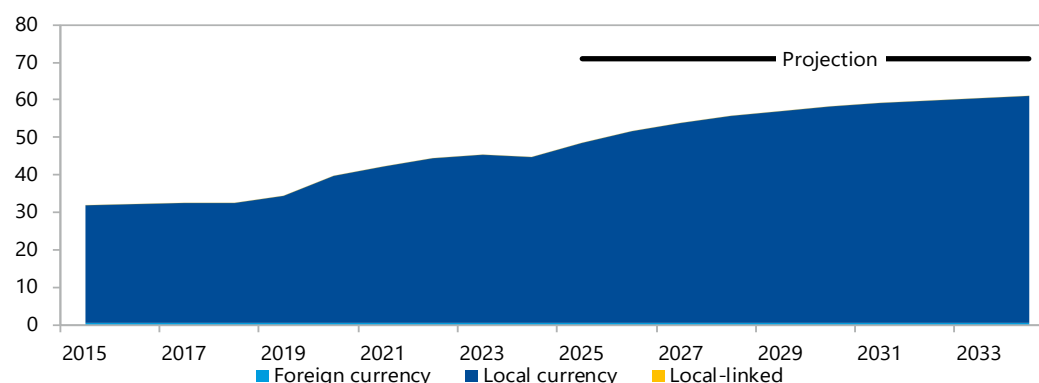
1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.

2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

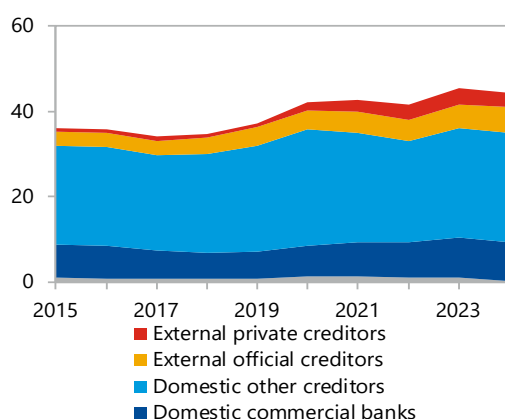
Figure 2. Debt Coverage Disclosures

Figure 2. Debt Coverage Disclosures										Comments									
1. Debt coverage in the DSA: 1/										CG	GG	NFPS	CPS	Other					
1a. If central government, are non-central government entities insignificant?										No									
2. Subsectors included in the chosen coverage in (1) above:																			
Subsectors captured in the baseline										Inclusion									
CPS	NFPS	GG: expected	CG	1	Budgetary central government	Yes	Yes												
				2	Extra budgetary funds (EBFs)	No	No												
				3	Social security funds (SSFs)	Yes	Yes												
				4	State governments	No	No												
				5	Local governments	No	No												
				6	Public nonfinancial corporations	No	No												
				7	Central bank	No	No												
				8	Other public financial corporations	No	No												
3. Instrument coverage:										Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/					
4. Accounting principles:										Basis of recording		Valuation of debt stock							
										Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/					
5. Debt consolidation across sectors:										Consolidated		Non-consolidated							
Color code: chosen coverage Missing from recommended coverage Not applicable																			
Reporting on Intra-Government Debt Holdings																			
Issuer										Holder	Budget. central govt	Extra-budget. funds	Social security funds	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
CPS	NFPS	GG: expected	CG	1	Budget. central govt													0	
				2	Extra-budget. funds														0
				3	Social security funds														0
				4	State govt.														0
				5	Local govt.														0
				6	Nonfin pub. corp.														0
				7	Central bank														0
				8	Oth. pub. fin. corp														0
Total											0	0	0	0	0	0	0	0	0

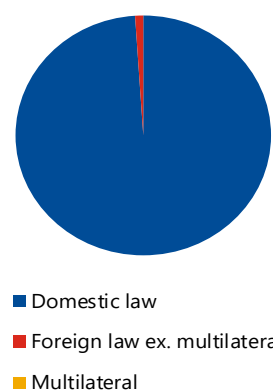
1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.
4/ Includes accrual recording, commitment basis, due for payment, etc.
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

Figure 3. Public Debt Structure Indicators
Debt by Currency (Percent of GDP)


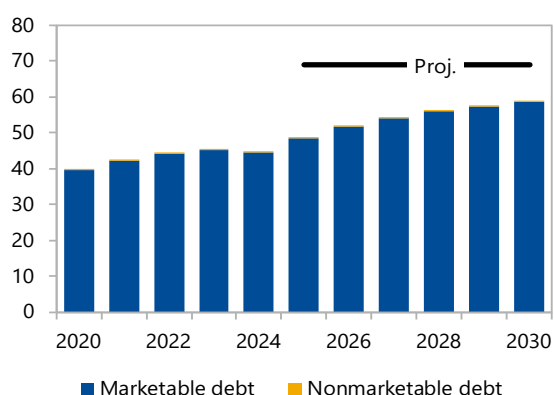
Note: The perimeter shown is central government.

Public Debt by Holder (Percent of GDP)


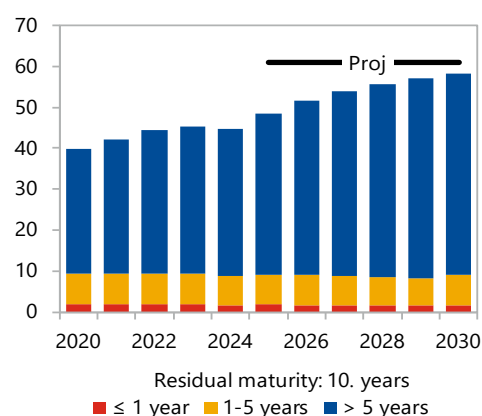
Note: The perimeter shown is general government.

Public Debt by Governing Law, 2024 (percent)


Note: The perimeter shown is general government.

Debt by Instruments (Percent of GDP)


Note: The perimeter shown is general government.

Public Debt by Maturity (Percent of GDP)


Note: The perimeter shown is general government.

Figure 4. Baseline Scenario

	Actual	Medium-term projection							Extended projection			
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	
Public debt	44.6	48.2	51.5	53.7	55.8	57.5	59.1	60.5	61.7	62.8	63.8	
Change in public debt	-0.7	3.6	3.3	2.2	2.1	1.8	1.6	1.3	1.2	1.1	1.0	
Contribution of identified flows	1.5	3.4	3.1	2.1	1.9	1.7	1.4	1.2	1.1	1.0	0.9	
Primary deficit	0.7	1.6	1.3	1.4	1.2	1.0	0.8	0.8	0.8	0.8	0.7	
Noninterest revenues	20.8	21.7	22.3	22.4	22.4	22.6	22.6	22.6	22.6	22.6	22.6	
Noninterest expenditures	21.5	23.2	23.6	23.7	23.6	23.6	23.5	23.4	23.4	23.4	23.4	
A Noninterest expenditures	-1.6	-0.2	-0.2	-1.2	-1.2	-1.2	-1.2	-1.3	-1.3	-1.4	-1.4	
Real interest rate and relative inflation	-0.7	0.2	0.7	-0.1	-0.1	-0.2	-0.1	-0.1	-0.1	0.0	0.0	
Real interest rate	-0.7	0.2	0.7	-0.1	-0.1	-0.2	-0.1	-0.1	-0.1	0.0	0.0	
Relative inflation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Real growth rate	-0.9	-0.4	-0.9	-1.1	-1.2	-1.1	-1.1	-1.3	-1.3	-1.3	-1.3	
Real exchange rate	0.0	...	...	...	...	...	...	...	...	...	...	
Other identified flows	2.4	2.0	2.0	1.9	1.9	1.9	1.8	1.7	1.7	1.6	1.5	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
(minus) Interest Revenues	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9	
Other transactions	3.3	3.0	2.9	2.9	2.8	2.8	2.7	2.6	2.6	2.5	2.4	
Contribution of residual	-2.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	
Gross financing needs	6.3	3.1	3.0	3.2	3.1	2.9	3.3	3.6	3.9	4.2	4.5	
of which: debt service	6.5	2.5	2.5	2.8	2.8	2.8	3.4	3.7	4.0	4.4	4.7	
Local currency	6.5	2.4	2.5	2.7	2.7	2.8	3.3	3.6	3.9	4.3	4.7	
Foreign currency	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	
Memo:												
Real GDP growth (percent)	2.0	0.9	1.8	2.2	2.2	2.0	1.9	2.2	2.2	2.2	2.2	
Inflation (GDP deflator; percent)	4.1	1.2	0.3	1.9	1.9	2.1	2.0	1.9	1.9	1.9	1.9	
Nominal GDP growth (percent)	6.2	2.1	2.1	4.1	4.1	4.1	4.0	4.1	4.1	4.1	4.1	
Effective interest rate (percent)	2.4	1.7	1.7	1.7	1.7	1.8	1.8	1.8	1.8	1.8	1.8	

Contribution to Change in Public Debt

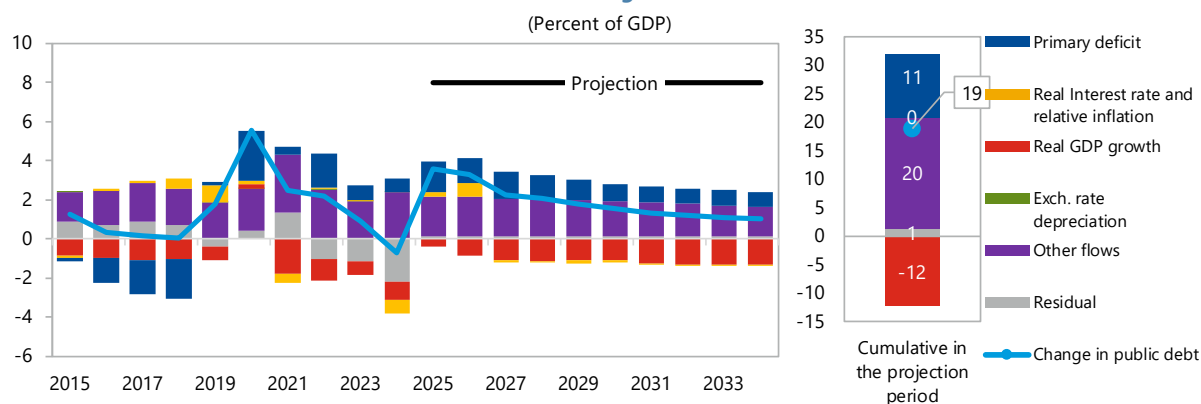
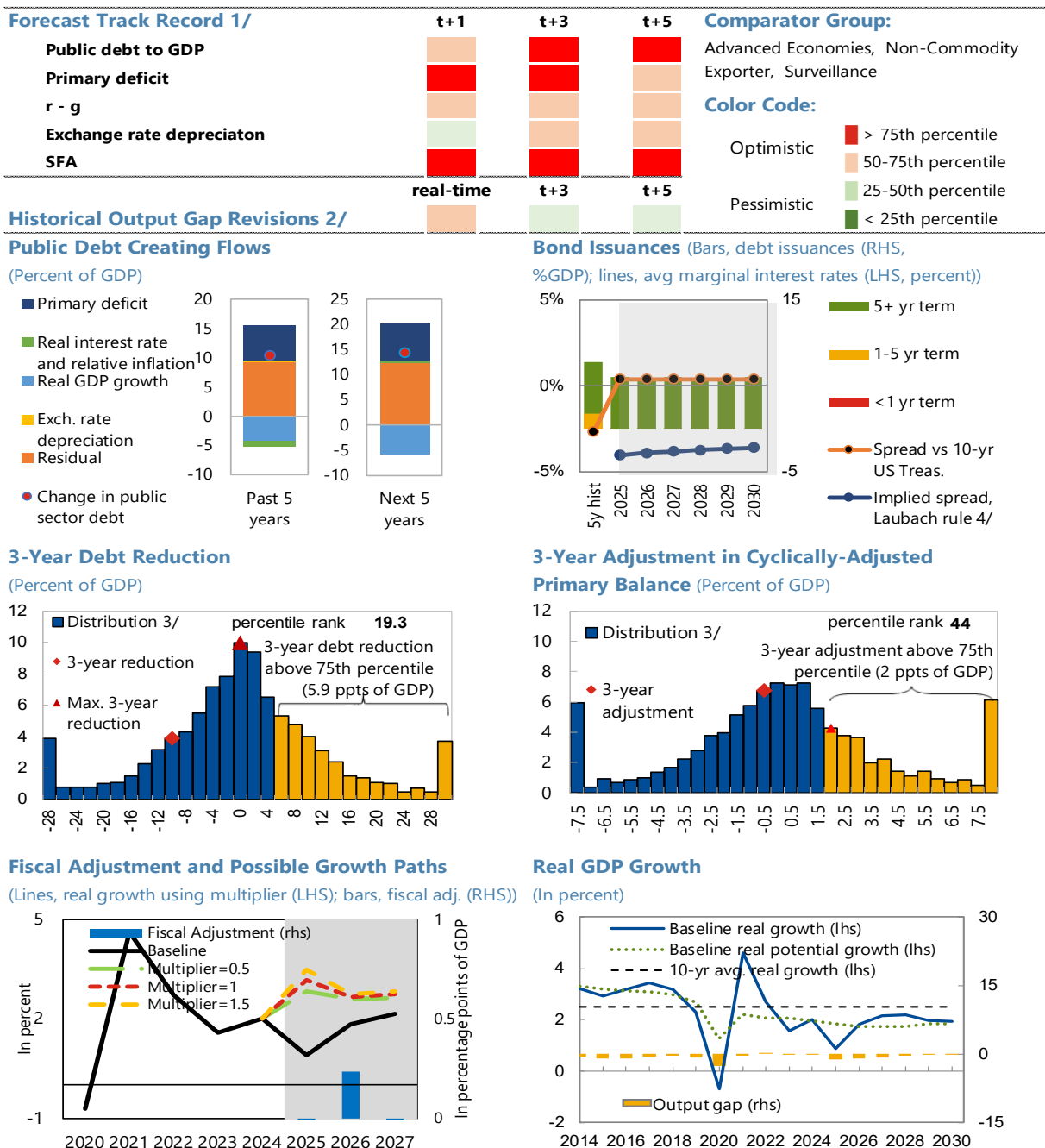


Figure 5. Realism of Baseline Assumptions



Source: IMF staff estimates and projections.

1/ Projections made in the October and April WEO vintage.

2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates

3/ Data cover annual observations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.

4/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

Figure 6. Medium-Term Risk Assessment

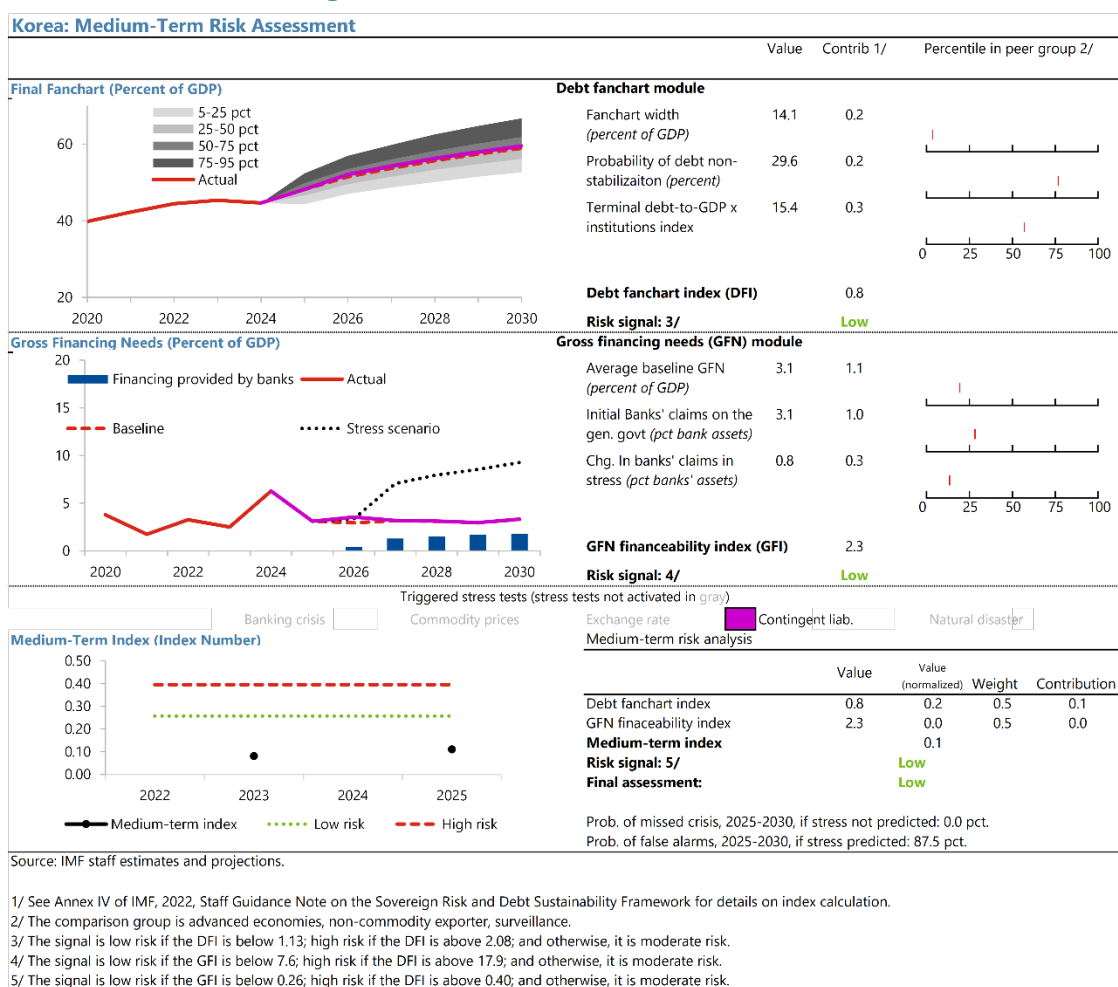


Figure 7. Triggered Modules

Large amortizations

Pensions

Climate change: Adaptation

Natural Resources

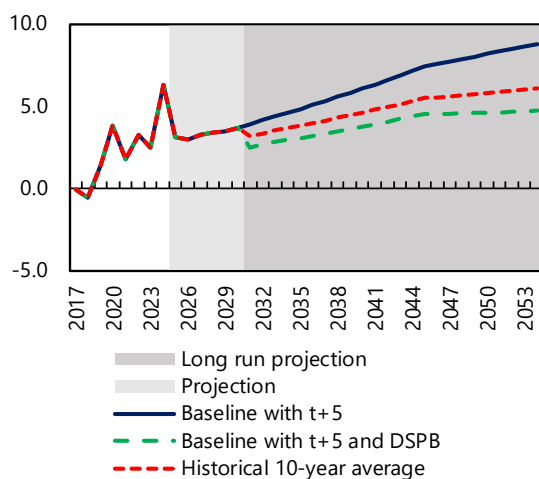
Health

Climate change: Mitigation

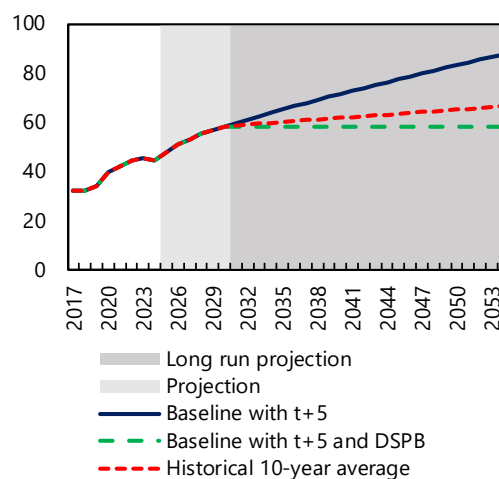
Long-Term Risk Assessment: Large Amortization

Projection	Variable	Risk Indication
Medium-term extrapolation	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Medium-term extrapolation with debt stabilizing primary balance	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Historical average assumptions	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Overall Risk Indication		

GFN-to-GDP Ratio



Total Public Debt-to-GDP Ratio



Korea faces elevated long-term spending pressures, driven in large part by population aging that is expected to result in increases in pension and health-care spending. Long-term simulations suggest that GFNs and amortization will exceed the 2015–2024 average by more than one standard deviation. However, GFNs would remain below 10 percent of GDP by 2050 under all scenarios. Starting from low public debt levels, spending pressures would increase debt but the latter would remain below 90 percent of GDP under the baseline with t+5 scenario and remain much lower under other scenarios.

Figure 8. Demographics - Pensions

Permanent adjustment needed in
the pension system to keep
pension assets positive for:

30 years

50 years

Until 2100

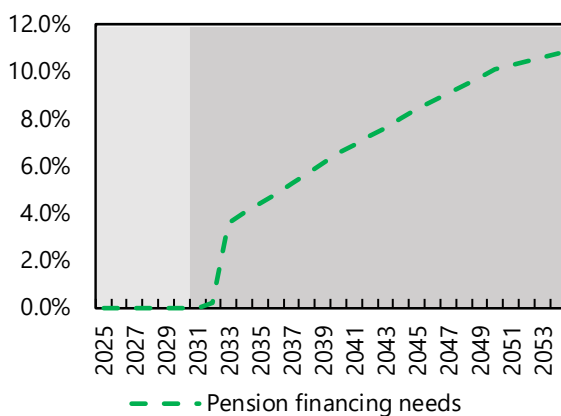
(pp of GDP per year)

5.3%

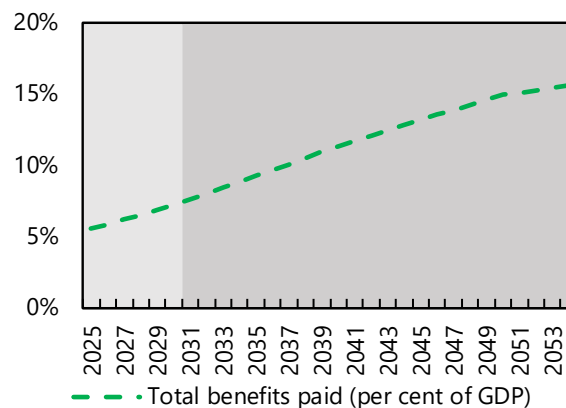
7.9%

8.8%

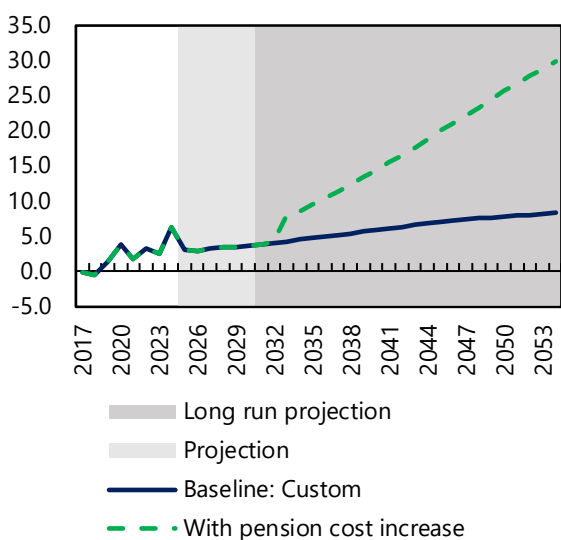
Pension Financing Needs



Total Benefits Paid



GFN-to-GDP Ratio



Total Public Debt-to-GDP Ratio

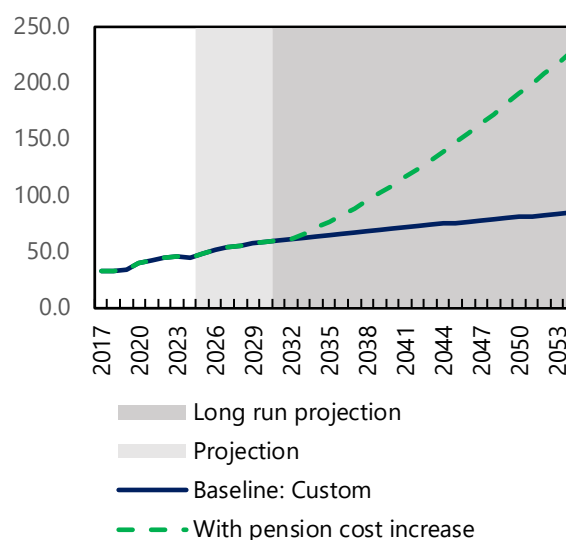
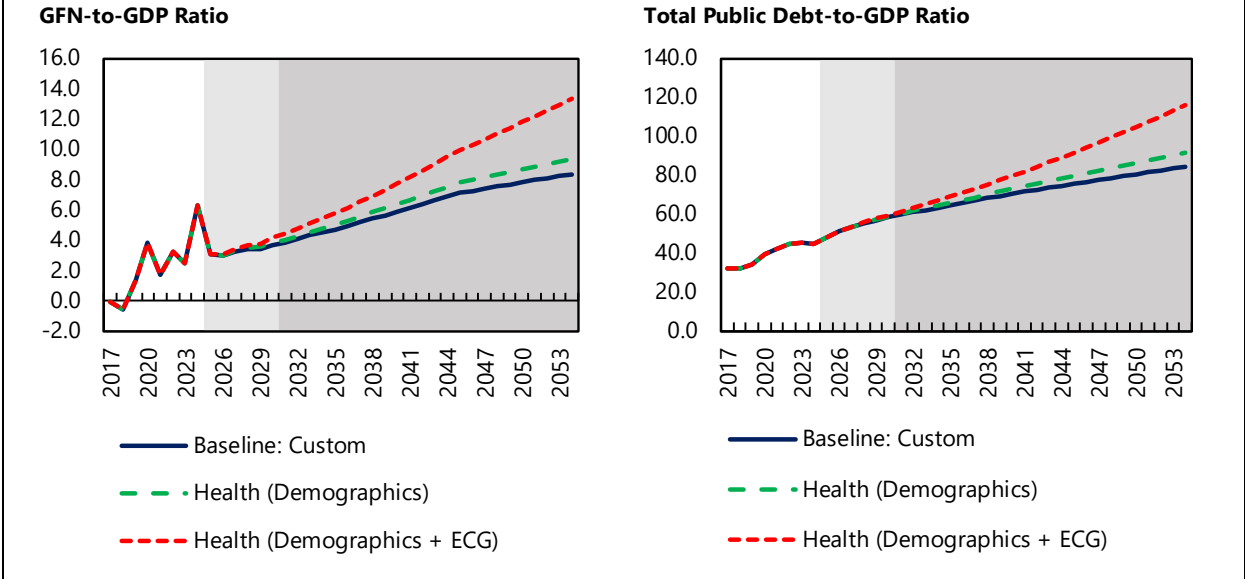


Figure 9. Demographics - Health



Annex VI. Risk Assessment Matrix

Source of Risk	Likelihood	Impact of Risk	Policy Response
Global Risks			
Escalating trade measures and prolonged uncertainty. Rising trade barriers and prolonged policy uncertainty could reduce trade, investment and growth. Inflationary pressures may re-emerge—especially in countries imposing tariffs. These effects can be amplified by strategic complementarities or bottlenecks in global value chains or inventory overhang.	High	High: Increase in trade barriers and lasting trade policy uncertainty would affect Korea's exports and damage business confidence. Tighter financial conditions could raise financing costs. Investors' herding behaviors could lead to heightened FX market volatility.	Provide temporary and targeted fiscal support to vulnerable workers and export businesses. In the event of disorderly financial market conditions, apply temporary and targeted stabilization measures, with safeguards to mitigate moral hazard. FXI should be limited to countering situations of excessive FX market volatility.
Financial market volatility and correction. Stretched asset valuations, easy financial conditions, and subdued volatility in key markets could be significantly affected by a sudden and disruptive shift in investor sentiment or policy stance, triggering market corrections, exchange rate turbulence, spikes in sovereign bond yields, and capital flow volatility. Elevated leverage among Non-Bank Financial Intermediaries further amplifies these risks, as forced deleveraging during periods of stress could exacerbate asset price swings and propagate shocks. Rapid growth of unregulated crypto markets could add to these vulnerabilities by increasing the risk of redemption runs and market dislocations.	High	High: Given close linkages to international financial markets, global financial market volatility could cause disorderly domestic market conditions and exacerbate vulnerabilities in weak NBFIs. Unregulated crypto assets could exacerbate risks to financial stability.	Provide temporary and targeted support to affected financial institutions, with safeguards to mitigate moral hazard. Carry out prompt resolution of problematic NBFIs. Regulate issuance of crypto assets.
Geopolitical tensions. Intensification of conflicts, coupled with the weakening of multilateralism, may trigger commodity price volatility, increase migration pressures, reignite inflation, and weigh on growth by undermining confidence, investment, tourism, trade and supply chains.	High	Medium: Conflict-related growth slowdown in key trading partners and weaker multilateralism could affect Korea's exports, damage business confidence, and increase financial market volatility.	Provide temporary and targeted fiscal support to vulnerable workers and businesses. In the event of disorderly financial market conditions, apply temporary and targeted market stabilization measures.

Source of Risk	Likelihood	Impact of Risk	Policy Response
Commodity price volatility. Shifts in supply and demand—driven by geopolitical tensions and OPEC+ actions, or the green transition—may fuel commodity price swings, intensifying external and fiscal pressures, social unrest, and macroeconomic instability.	High	Medium: A sizable negative terms-of-trade shock for Korea as a commodity importer would slow growth and increase inflationary pressures.	Allow public utility companies to pass through international energy prices while providing targeted support to vulnerable groups. Monetary policy should focus on preserving price stability to rein in second-round effects on inflation.
Fiscal vulnerabilities and higher long-term interest rates. Rising public debt and deficit levels may put upward pressure on long-term interest rates and increase the risk of sovereign bond market disruptions. These developments could amplify capital flow volatility, tighten financial conditions, threaten sovereign debt sustainability, and trigger global spillovers. To the extent that major economies are affected, market imbalances (such as reduced investor capacity to absorb sovereign debt) could emerge, exacerbating risks from a close sovereign-financial nexus.	High	Low: Sovereign bond market disruptions in some countries could trigger global flight-to-safety and tighten financing conditions, increasing volatility of Korean financial and FX markets.	Provide temporary and targeted support to affected financial institutions, with safeguards to mitigate moral hazard.
Cyberthreats. Cyberattacks on physical or digital infrastructure, technical failures, or misuse of AI technologies trigger financial and economic instability.	High	Low: Cyberattacks on critical infrastructure and institutions could lead to concerns about protection of critical data and may result in loss of confidence.	Assess the adequacy of IT risk management and prepare a contingency plan. In case disruptions cause financial and economic instability, provide temporary and targeted support.
Climate change. Extreme climate events driven by rising temperatures cause loss of life, damage to infrastructure, food insecurity, supply disruptions, lower growth, and financial instability.	Medium	Medium: Extreme climate events, notably from typhoons, flooding, droughts, heat and cold waves could disrupt economic activity and affect human livelihoods in Korea.	Enhance climate change adaptation and mitigation strategies. Provide targeted fiscal support to affected individuals and businesses.
New trade agreements. A breakthrough in trade talks could reduce uncertainty and protectionism, boost investment and productivity, and support broader reforms to lift medium-term growth.	Low	Medium: Korea's deeper trade integration and new trade agreements, especially with regional countries, could yield substantial growth benefits.	Diversify trade markets, products (service exports) and supply chains. Advance structural reforms to boost productivity growth.

Source of Risk	Likelihood	Impact of Risk	Policy Response
Domestic Risks			
Slowdown of the semiconductor sector due to softening of AI-related demand. A slowdown in AI-related spending would reduce demand for memory chips and weigh on Korea's exports.	Medium	Medium: Weaker growth of the Korean semiconductor industry could affect industrial production, exports, business confidence, and manufacturing employment.	Allow flexible exchange rates and automatic stabilizers to operate. In case of a larger shock, reduce the pace of fiscal normalization and consider more accommodative monetary policy.
Rising liquidity and insolvency concerns of weak NBFIs. Lower profitability, higher NPLs, and larger-than-expected restructuring cost from real-estate related project financing could trigger liquidity stress and insolvencies in weak NBFIs.	Low	Medium: Mutual savings banks and credit cooperatives could be particularly affected, due to relatively higher NPLs and lower provisions.	Provide temporary and targeted liquidity support to viable financial institutions, with safeguards to mitigate moral hazard. Prompt resolution of problematic NBFIs.

Annex VII. A Quarterly Projection Model for Korea: Assessing Monetary-Fiscal Trade-Offs¹

This annex uses a new semi-structural Quarterly Projection Model (QPM) tailored to Korea's institutional and macroeconomic context to assess alternative monetary and fiscal policy paths. The model captures key macro-fiscal interactions and provides a consistent framework to evaluate policy trade-offs over the medium term. The baseline scenario is calibrated to align with the government's current policy priorities, providing the benchmark against which alternative policy paths are assessed. Through illustrative simulations, the annex examines the effects of front-loaded monetary easing and sustained fiscal stimulus on output, inflation, and debt dynamics. These scenarios are designed to support ongoing discussions on the calibration of Korea's policy mix.

A. Introduction

1. Korea faces trade-offs between short-term support and long-term sustainability. The economy is navigating a policy environment that demands accommodative policies to support slowing growth, while ensuring fiscal buffers to meet rising aging-related spending. In this context, authorities must weigh the benefits of near-term monetary and fiscal support against the potential long-term costs to inflation control and debt sustainability. While accommodative measures can play an important role in supporting domestic demand in a slowing economy, their effectiveness and implications depend on the policy mix, the scale of stimulus, and the economic context. If maintained beyond the closure of the output gap or deployed too aggressively, these measures could create risks of pro-cyclicality, increase inflationary pressures or weaken fiscal space. This underscores the importance of carefully calibrating the timing, magnitude, and interaction of fiscal and monetary actions.

2. To assess these trade-offs, a semi-structural model was developed to reflect Korea's institutional context. The QPM is a forward-looking framework designed to analyze macroeconomic dynamics and policy interactions over the medium term. It links inflation, output, interest rates, and the exchange rate through stylized behavioral relationships grounded in economic theory. The model includes four core building blocks: an IS curve for the output gap, a Phillips curve for inflation dynamics, a forward-looking monetary policy rule, and an uncovered interest parity condition that determines exchange rate movements. To reflect Korea's evolving fiscal framework, the model is augmented with a fiscal block that includes debt and deficit fiscal rules and captures the effects of discretionary policies. The structure allows for simulation of internally consistent policy paths and feedback effects across sectors.²

3. This annex presents simulations that illustrate the macroeconomic implications of alternative policy strategies. Using the QPM, three stylized scenarios are explored: (i) a more

¹ Prepared by Alexander Borodin (ICD), Matteo Ghilardi, and Tommy Lee (both APD). Victoria Petrenko (ICD) contributed to the scenario analysis. This Annex is based on Borodin et al. (forthcoming).

² A previous version of the QPM developed for Korea focused exclusively on monetary policy and did not include an explicit fiscal block. See Clinton et al. (2019).

accommodative monetary easing cycle; (ii) a higher deficit path without medium-term consolidation; and (iii) a combined fiscal and monetary stimulus. These scenarios highlight the potential growth, inflation, and debt implications of alternative monetary and fiscal options to boost demand beyond the closure of the output gap, as expected in the baseline scenario, and underscore the importance of aligning short-term support measures with medium-term macroeconomic stability.

B. The Model

The model consists of two key components: a core block, in line with Berg et al. (2006) that links output, inflation, interest rates, and exchange rates through gap-based behavioral equations, and a fiscal block that models debt dynamics and fiscal feedback rules consistent with Korea's proposed fiscal framework. This structure enables internally consistent simulations of monetary and fiscal policies and their interactions. The model is calibrated to match the specificities of Korean data.³

The Core Block

The core block of the model consists of four key behavioral equations that govern the dynamic adjustment of macroeconomic variables toward their equilibrium values:

- **IS curve.** The output gap evolves as a function of its own lag, foreign output gap, and a real monetary conditions index (MCI), which captures the stance of monetary policy through interest rate and exchange rate channels. In addition, a fiscal impulse term measures the impact of the fiscal stance on output.
- **Phillips curve.** Inflation dynamics are modeled as a hybrid equation, combining backward-looking (lagged inflation) and forward-looking (expected inflation) components. Real marginal costs enter as drivers of inflation pressure. For core inflation they are proxied by the output and real exchange rate gap for core inflation, while for food and energy inflation they also take into account fluctuations in global commodity prices.
- **Monetary policy rule.** The nominal policy interest rate responds to deviations of expected inflation from target and of the output gap from zero. The rule includes interest rate smoothing to reflect the observed gradualism in policy rate adjustments.
- **Uncovered Interest Parity.** The exchange rate is determined by the interest rate differential between Korea and abroad, adjusted for both backward-looking (lagged exchange rate) and forward-looking (expected exchange rate) movements. This captures capital flow dynamics, external competitiveness effects, and exchange rate persistence.

³ Further technical details regarding the model and the calibration are available in Borodin et al. (forthcoming).

Together, these equations define the model's internal transmission mechanisms and ensure a coherent medium-term forecast framework that respects economic identities and behavioral regularities.

The Fiscal Block

The fiscal block introduces public sector dynamics into the QPM to assess fiscal dynamics and sustainability, and policy trade-offs. It includes:

- **A government debt accumulation identity**, which links public debt to past debt, nominal interest payments, and the overall deficit. This ensures consistency between fiscal balances and debt trajectories.
- **A primary deficit rule**, which adjusts the structural primary balance in response to deviations of the debt-to-GDP ratio from its medium-term anchor. The responsiveness of the rule can be calibrated to reflect the strength of the fiscal framework or to simulate the adoption of formal rules.
- **A fiscal impulse term**, derived from changes in the structural primary balance, which feeds into the IS curve to capture the short-run aggregate demand effects of fiscal policy. This design allows for a joint assessment of monetary and fiscal policy settings in a consistent general-equilibrium environment.

The fiscal block is designed to capture Korea's proposed rule-based fiscal framework, currently under consideration at the National Assembly, characterized by a dual-rule system: a 60 percent debt ceiling and a 3 percent managed deficit cap. While the rule is not modeled as binding in every period, the framework permits evaluation of whether different fiscal paths remain consistent with long-term sustainability. However, the fiscal rule is not binding, to allow for an assessment of alternative fiscal paths and their interaction with monetary policy.

C. Policy Scenario Analysis

Additional Monetary Policy Easing

4. The first scenario examines the impact of a more front-loaded monetary easing cycle relative to the baseline path. ⁴ In the simulation, the policy rate is lowered more aggressively, reaching the lower bound of the Bank of Korea's estimated neutral range by early 2026. Thereafter, it adjusts in response to inflation and output developments according to the Taylor Rule, eventually returning to its long-run level. The scenario reflects a proactive easing stance aimed at stimulating

⁴ The baseline path presented in this Annex is consistent with the macroeconomic forecast presented in the main text of the staff report. It assumes the policy rate reaching 1.75 percent by 2026Q1 and fiscal policy to remain accommodative till the output gap is closed in 2029.

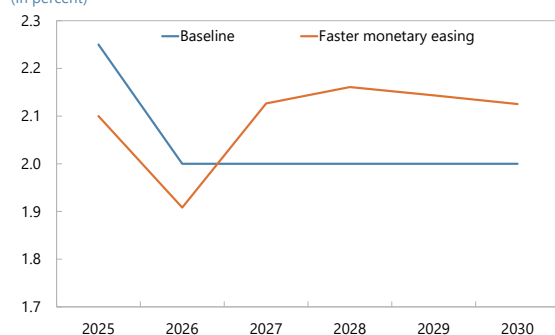
domestic demand amid softening growth and contained inflation pressures, in line with expectations that inflation will remain near or below target in the near term.

5. The results indicate that a front-loaded monetary easing delivers a stronger short-term boost to economic activity. Output rises relative to the baseline scenario over the first several quarters, and the output gap closes more rapidly. However, the pickup in demand also leads to a modest and persistent rise in inflation, peaking around 0.1 percentage points above the baseline. To contain inflationary pressures, the policy rate gradually increases in the outer years, rising above the midpoint of the estimated neutral range. This tightening phase dampens medium-term output gains, resulting in a temporary growth dividend followed by a moderation in economic activity. Overall, the scenario highlights an intertemporal trade-off: faster easing can support growth in the short term, but at the cost of tighter policy and more subdued activity later, underscoring the importance of carefully timing the pace of monetary accommodation.

Text Figure 1. Additional Monetary Policy Accommodation Scenario

Policy Rate

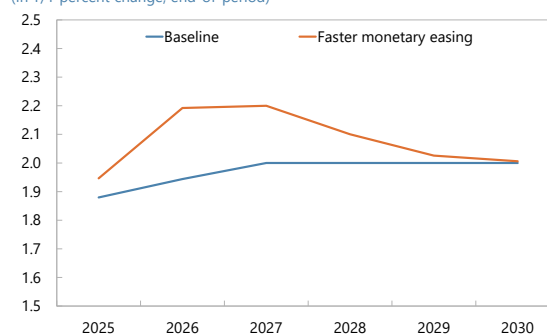
(In percent)



Source: IMF staff projections.

Inflation

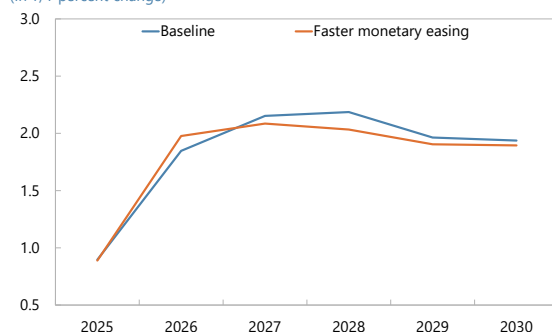
(In Y/Y percent change; end-of-period)



Source: IMF staff projections.

Real GDP Growth

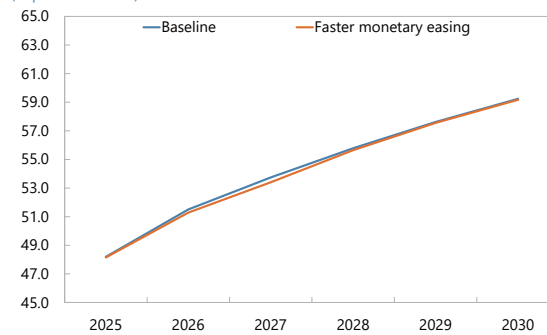
(In Y/Y percent change)



Source: IMF staff projections.

Debt

(In percent of GDP)



Sources: IMF fund projections.

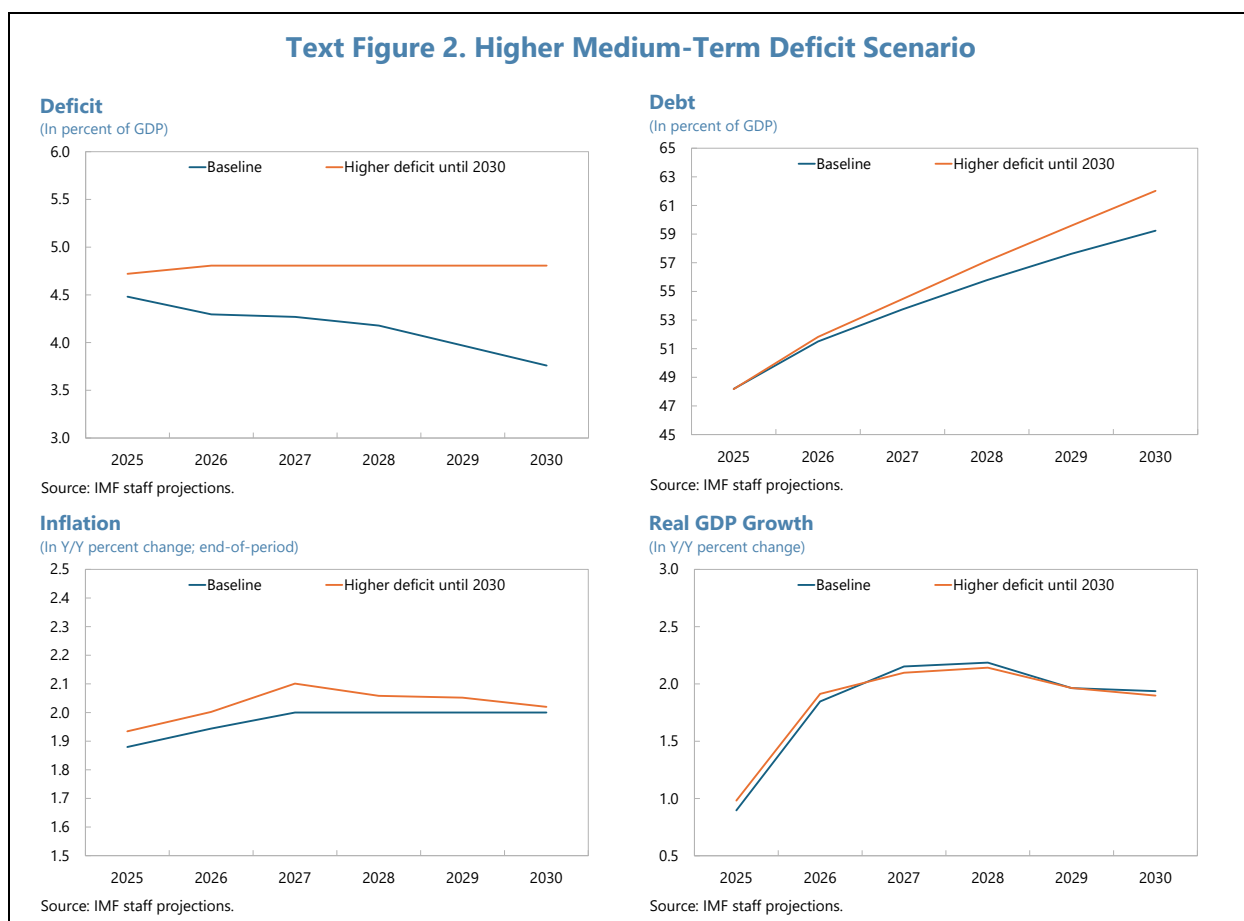
Higher Medium-Term Deficit

6. This scenario examines the macroeconomic impact of prolonged fiscal easing beyond the closure of the output gap, without implementing medium-term consolidation measures.

In the high-deficit scenario, the fiscal deficit remains elevated at its 2026 level throughout 2030, reflecting the absence of policy adjustments. While stylized, the exercise serves as a counterfactual

to test how prolonged fiscal accommodation would interact with monetary policy over the medium term, focusing on the potential for higher debt, inflationary pressures, and crowding-out effects on private activity.

7. Maintaining an expansionary fiscal stance without medium-term adjustment does not yield perceptible growth benefits relative to the baseline but results in a steady rise in public debt. A prolonged elevated deficit intensifies inflationary pressures, triggering the monetary policy to respond with higher interest rates in the medium term. The resulting tightening of monetary conditions dampens economic activity, offsetting gains from fiscal stimulus given the relatively low fiscal multipliers associated with public spending. Over time, public debt rises more rapidly, rising above 60 percent of GDP by the end of the forecast period. This scenario highlights the macroeconomic costs of delaying fiscal adjustment, with persistently high deficits leading to weaker medium-term growth, and higher public debt.



Combined Monetary and Fiscal Stimulus

8. This scenario evaluates the macroeconomic impact of simultaneous monetary and fiscal easing even after the output gap has closed. It combines the front-loaded policy rate cuts described in Scenario A with the sustained fiscal accommodation outlined in Scenario B, where the policy rate is cut more aggressively, reaching the lower bound of the estimated neutral range in

early 2026, while the fiscal deficit remains elevated over the medium-term without any consolidation measures. The combined scenario reflects a highly accommodative policy stance designed to counteract weak domestic demand and to provide stronger support to the economy for a longer period, beyond the closure of the output gap.

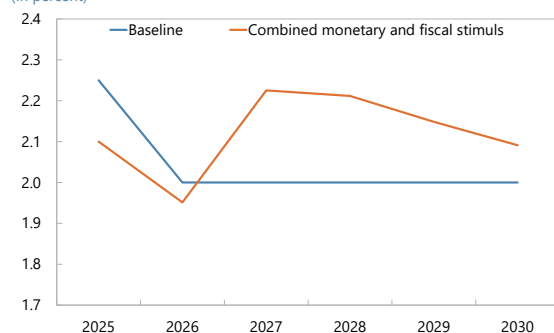
9. The results further underscore the risks of overextending expansionary policies.

Economic activity in the near term follows a similar path to the monetary easing scenario, as the monetary stimulus is unchanged. However, the addition of sustained fiscal accommodation leads to stronger demand-side pressures, resulting in a more pronounced rise in inflation relative to the baseline. In response, the monetary policy rule triggers a sharper tightening in the medium term. This weighs on economic activity and slows growth relative to the baseline. Public debt rises faster, reflecting sustained deficits and higher debt servicing costs. Overall, this scenario underscores that, while demand-side policies can temporarily support growth, they are not a substitute for structural reforms to lift potential growth. Without such reforms, sustained use of stimulative policies risks weakening macroeconomic stability without delivering lasting gains in economic growth.

Text Figure 3. Combined Monetary and Fiscal Stimulus Scenario

Policy Rate

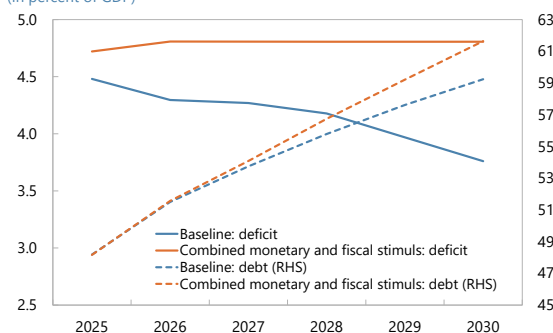
(In percent)



Sources: IMF staff projections.

Deficit and Debt

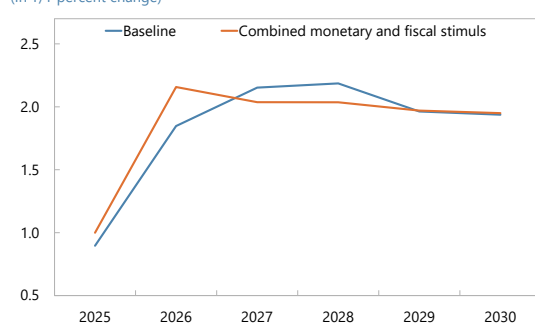
(In percent of GDP)



Sources: IMF staff projections.

Real GDP Growth

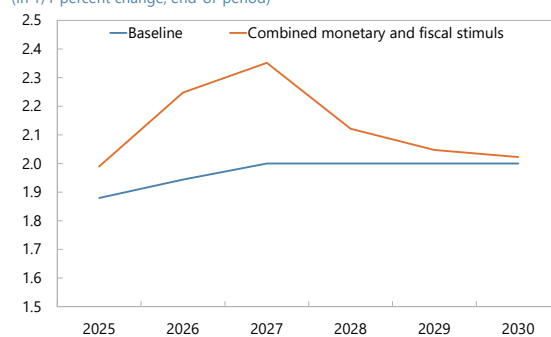
(In Y/Y percent change)



Sources: IMF staff projections.

Inflation

(In Y/Y percent change; end-of-period)



Sources: IMF staff projections.

References

- Berg, A., Karam, P. D., & Laxton, D. (2006). A Practical Model-Based Approach to Monetary Policy Analysis – Overview. International Monetary Fund.
- Borodin, A., Ghilardi, M., & Lee, T. (forthcoming). International Monetary Fund.
- Clinton, K., Craig, R. S., Laxton, D., & Wang, H. (2019). "Strengthening the Monetary Policy Framework in Korea", IMF Working Papers 2019, 103

Recommendations	Agency	Description of Actions Taken
More Robust Identification of Systemic Risk Conditions		
Conduct an impact assessment of the 'open banking system' and e-money on security and operational risks and market structure	FSC/FSS and BoK	- The FSC drew up measures to improve open banking system, including ways to enhance security on October 21, 2020. - The FSC has been working on open banking legislation which includes duties and requirements for organizations using or participating in the system, etc. In this regard, the amendment of the Electronic Financial Transactions Act was proposed to the National Assembly on November 27, 2020. The FSC introduced periodic and non-periodic inspections of fintech companies and established a system/framework for inspecting cyber security system of financial institutions on December 22, 2021. - The FSC has monitored cyber security risks related to open banking system. Banks and electronic financial service providers offering open banking services (54 in total) in the end of 2020 were subject to inspections (conducted from February to April 2021) on their operation of open banking services.
Assess the potential rollover risk implied by the Jeonse leasehold system and its connectedness to securities companies	FSC/FSS and BoK	- The FSC announced measures to strengthen household debt management in October 2021, which includes improving DSR rules on individual borrowers in order to establish lending practice based on borrowers' debt-servicing capabilities. - Together with the FSS and the MOLIT, the FSC is closely monitoring the so-called reverse Jeonse phenomenon where new Jeonse leases become cheaper than the previous ones. - In July 2023, the FSC temporarily loosened loan regulations for homeowners when they took out loans to repay Jeonse deposits to tenants in case falling Jeonse prices negatively affected their ability to repay deposits.
Enhance stress testing practices to better estimate vulnerabilities relating to nonperforming loan (NPL) sales, FX and domestic household liquidity, SME loans, securities intermediaries activities, and sovereign contingent liabilities	BoK and FSC/FSS	- The temporary deregulatory measures on the FX liquidity ratio expired in June 2022, so the regulatory FX LCR has been restored to 80 percent. - In line with FSAP recommendations, the FSS has improved the top-down stress testing methodology by developing K-IFRS compatible lifetime expected credit loss models. - It is planned to further improve stress testing methods in the mid-and long-term by collecting related data. - The BOK has incorporated more granular risk assessment in June 2024 by estimating probability of default across multiple borrower dimensions, such as credit scores, income levels, interest rates, and industry sectors. - The BOK developed a liquidity stress test model and conducted a foreign currency liquidity stress testing for NBFIs in June 2024 including mutual savings banks, mutual credit cooperatives, credit-specialized financial companies, securities companies, insurance companies. - The BOK conducted a top-down stress test to assess PF risks at securities companies in July 2025. The test evaluated both domestic PF exposures and risks from foreign commercial real estate investment.

Recommendations	Agency	Description of Actions Taken
Strengthening the Preemptive Management of Systemic Vulnerabilities		
Strengthen the institutional framework for financial stability by assigning the MEFM (or a body empowered for the equivalent purpose) macroprudential oversight as its sole primary objective	MOEF, FSC and BoK	▪ The Macroeconomic and Finance Meeting, the meeting in which the agencies concerned with macroeconomic affairs gather and discuss, is operated in Korea with the sole primary objective of analyzing and enhancing macro-prudence. ▪ Furthermore, taking IMF's recommendation into account, the meeting has become a regular affair to discuss the way to enhance macro-prudence. ▪ In light of recent economic circumstances, the 'Emergency Meeting on Macroeconomic and Financial Stability', which is presided over by the minister and joined by governors of BoK/FSS/FSC, has been held regularly in addition to the existing meeting presided over by the vice minister.
Widen the definition of financial holding company and enhance legal powers to cover all financial conglomerates, including requirements for group- wide liquidity risks and contingency plans	MOEF and FSC/FSS	▪ The Act on Supervision of Financial Groups took effect in June 2021. With the aim of strengthening supervision of non-holding financial conglomerates, the Act contains provisions related to (i) tightened internal control and risk management and (ii) solvency management (contagion risks and concentration risks, etc.), including the supervision of capital adequacy. Under the Act, it is required to submit and implement a management improvement plan in case of group-wide risks. Financial holding groups are already subject to similar measures under the Financial Holding Companies Act. ▪ For bank holding companies, the FSC and the FSS are regularly monitoring liquidity risk measures (LCR and NSFR).
Implement a Sectoral CCyB framework for secured and unsecured household exposures of the banking sector	FSC/FSS and BoK	▪ The FSC/FSS has been considering measures to require banks to set aside additional capital in proportion to their household assets ranging from 0% to 2.5% of the total risk-weighted assets. ▪ FSC/FSS aimed to adopt the sectoral CCyB in 2022. However, with slower growth in household lending and the easing of economic procyclicality due to the increased CCyB (1%), discussions have been put on hold for the time being. FSC/FSS is still monitoring macroeconomic developments to determine the adoption and timing of enforcement.
Review the role of state-controlled banks and ensure that their commercial lending and investment activities conform, at a minimum, with prudential requirements for nationwide banks	FSC/FSS	▪ To improve the resiliency of state-controlled banks with regard to the management of lending and investment activities, the Korea Development Bank and Industrial Bank of Korea adopted the Basel III framework for credit risk in December 2020, and finalized the implementation of Basel III in January 2023 with the same prudential requirements as for nationwide banks.

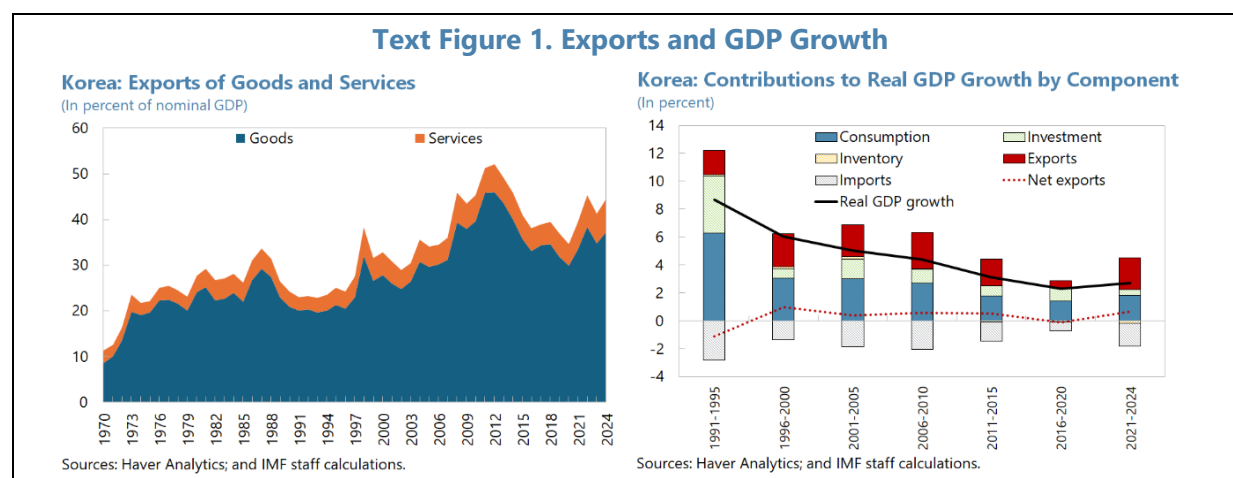
Recommendations	Agency	Description of Actions Taken
Intensifying Supervision and Promoting a Level Playing Field		
Increase risk-based supervisory intensity of insurers , ensure a prudent and proportionate implementation of Korea Insurance Capital Standard (K-ICS) (solvency regime) and design of the capital charge for longevity risks	FSC/FSS	▪ The FSC/FSS announced the final version of Korean-Insurance Capital Standard (K-ICS) and implemented K-ICS in 2023. ▪ K-ICS evaluates assets and liabilities at fair value including insurance liabilities and adds new insurance risks such as longevity risks. ▪ The FSS changed the method of measuring required capital from risk coefficient to stress approach, and increased the risk confidence levels from 99% to 99.5%. ▪ The FSC/FSS has supported the stable establishment of K-ICS and has implemented the K-ICS external verification regime requiring insurance companies to submit verification reports validated by accounting firms. To reinforce the transparency of the regime, the FSS discloses the verification reports to the public.
Focus the role of the FSC towards strategy, addressing nonbank data gaps, market development policies, and crisis preparedness while assigning greater operational and enforcement authority to the FSS	MOEF and FSC/FSS	▪ The FSC is responsible for formulating financial policies, supervising financial institutions, and financial markets, protecting consumers, and advancing Korea's financial industry. ▪ On the other hand, the FSS examines and supervises financial institutions under the oversight and guidance of the FSC as per the Act on the Establishment, etc. of Financial Services Commission. ▪ The FSC and FSS will closely cooperate with each other to address financial issues in a timely and harmonious way while playing their own roles as stipulated in the Act.
Support the development of pension and contractual savings products by introducing multi-employer pension schemes and building further capacity for oversight of pension funds market	MOEL, MOHW	

Recommendations	Agency	Description of Actions Taken
Reinforcing Crisis Management, Safety Nets, Resolution Arrangements		
Include cross-border activities and overseas operations of financial conglomerates in resolution plans, clarify issues relating to resolvability, and relationship between ELA and resolution funding	FSC/FSS	▪ The Recovery and Resolution Plans (RRP) for financial holding companies and banks came into effect in June 2021. Since then, four cycles of RRP are completed. The fifth cycle is currently underway. - Issues regarding cross-border activities/operations are included in FSC's deliberation standards on RRP and resolution plans developed by the Korea Deposit Insurance Corporation (KDIC). - If financial institutions fail to meet FSC's deliberation standards on RRP, the FSC may require them to supplement and address issues/challenges in accordance with the law. ▪ Pursuant to the amendment of the Act on the Structural Improvement of the Financial Industry (December 2020), D-SIFIs are required to draw up their own recovery plans, and Korea Deposit Insurance Corporation draws up the resolution plans every year as recommended by the Financial Stability Board. These requirements came into effect in June 2021. ▪ The FSS develops evaluation reports on the recovery plans prepared by D-SIFIs, and the FSC approves the recovery plans based on the evaluation reports and reviews of the RRP committee. The RRP committee comprises the chair from the FSC and four committee members from external experts.
Strengthen the insolvency and creditor's rights regime through well-resourced courts and a functioning insolvency practitioners' profession	MoJ	▪ The Act on the Establishment and Jurisdiction of Courts of Various Levels was revised in December 2022, and Suwon Bankruptcy Court and Busan Bankruptcy Court will be established to provide residents in each jurisdiction with specialized and faster judicial service regarding rehabilitation and bankruptcy cases. ▪ The Debtor Rehabilitation and Bankruptcy Act was revised in December 2022 to permit overlapping jurisdictions and allow debtors to file rehabilitation cases, simplified rehabilitation cases, bankruptcy cases, or individual rehabilitation cases in Busan Bankruptcy Court if they reside in or their main offices are in Ulsan Metropolitan City or Gyeongsangnam-do (South Gyeongsang Province).

Annex IX. Strengthening Korea's Resilience to Trade Developments

A. Introduction

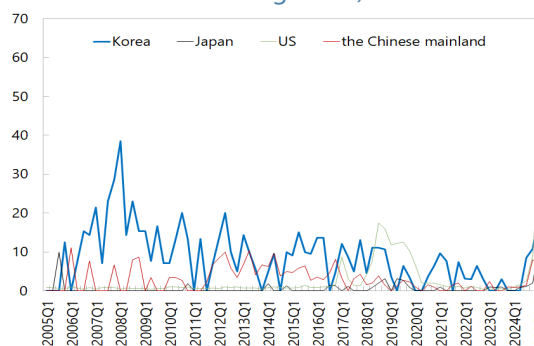
1. Exports have long been a major and resilient driver of Korea's economic growth (Text Figure 1). The share of exports in Korea's GDP has increased from 10 percent in 1970 to almost 40 percent in 2024, driven largely by the rapid rise of goods exports during the 1990s and 2000s. As of 2024, Korea ranks among the top six global exporters of goods. While average real GDP growth has gradually declined over the past three decades, exports have remained a consistent engine of growth, often surpassing consumption as the main contributor since the early 2010s. However, the contribution of net exports to growth has been modest. As a manufacturing powerhouse deeply integrated into global value chains, Korea relies heavily on imports of intermediate inputs for the production of its key export goods, such as semi-conductors, automobiles and machinery.



2. Recent shifts in the global trade landscape are posing new challenges to Korea's export growth. Geoeconomic fragmentation—stemming from rising geopolitical tensions and skepticism about the benefits of globalization—could lead to a reversal of global economic integration (IMF, 2023). In particular, the revived interest in industrial policies, especially for advanced technology products, could generate tougher competition for Korea's key exports. More recently, the rise in global effective tariffs is likely to contribute to trade reallocations, which can be disruptive to economic growth (IMF, 2025a). Moreover, the heightened trade policy uncertainty observed in recent months (Text Figure 2) is compounding these risks; such trade policy uncertainty can also in itself have long-lasting effects on investment and activity (Albrizio et al., 2025; Caldara et al., 2020).

3. This annex aims to identify opportunities for more resilient export-driven growth by analyzing the characteristics of Korea's export structure. Successfully navigating the evolving global trade landscape remains key to maintaining Korea's position in global economy. Building on previous IMF analysis (Chai and Kim, 2025), this annex uses granular data¹ to assess Korea's relative strengths and vulnerabilities in its exports structure through three main dimensions: concentration, sophistication and integration in global value chains. It then proposes strategies to enhance the resilience of Korea's trade, focusing on policies to maintain its competitive advantage in high-tech exports, expand trade in high-productivity services, especially in the intellectual and cultural sectors, and diversify export markets through regional trade integration.

Text Figure 2. Trade Policy Uncertainty
(share of firms using TPU-related terms in their earnings calls)



B. Characteristics of Korea's Export Structure

Export Concentration

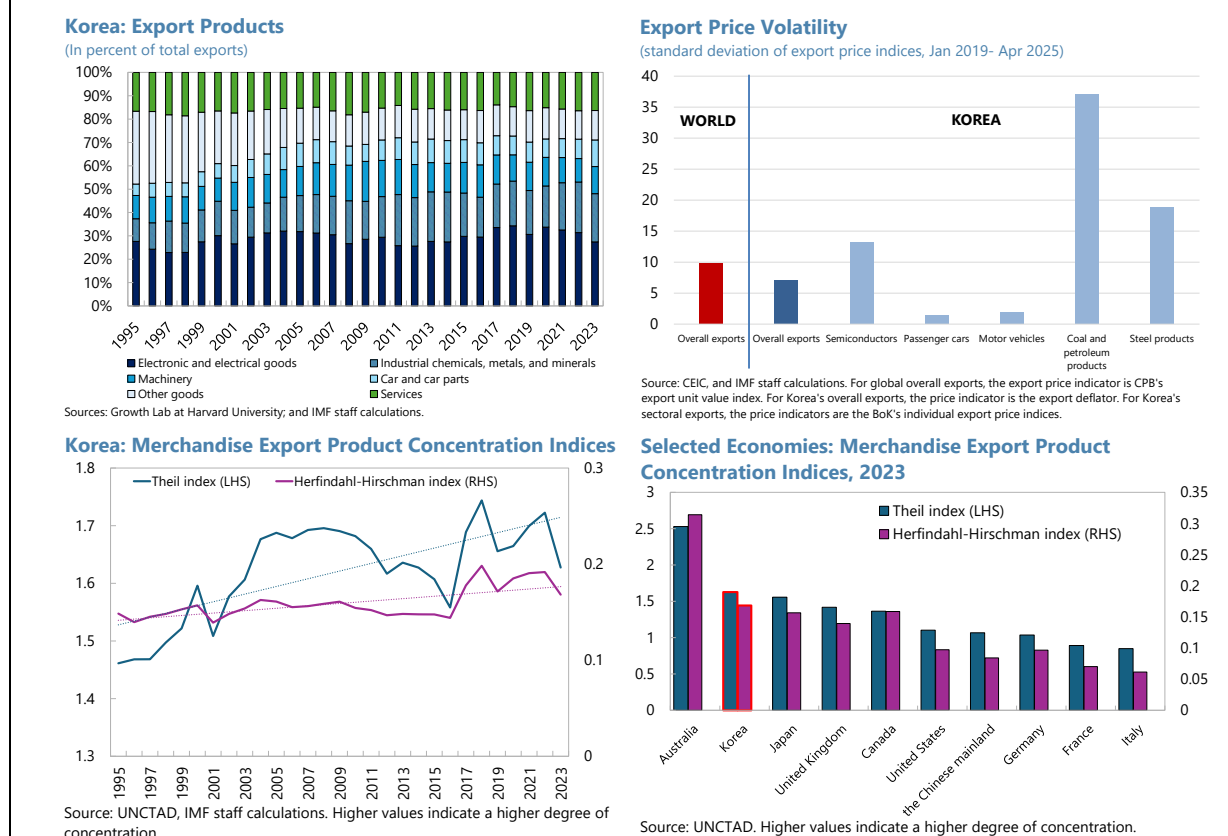
4. While greater export concentration can help promote economic growth, it also increases vulnerabilities to trade disruptions and external demand shocks. Focusing on exports from sectors where a country holds a comparative advantage is typically associated with gains in efficiency (Heckscher and Ohlin, 1991) and can lead to economies of scale (Krugman, 1980). However, focusing on a limited set of sectors or markets can increase sensitivity to shocks in those sectors or markets. Risks are amplified when exports are concentrated in goods with high demand elasticity, or high price volatility—such as commodities, and when export destinations are exposed to greater economic uncertainty. A more diversified export portfolio is typically associated with more stable streams of export revenues (Samen, 2010).

5. Korea's exports have become increasingly concentrated in a limited number of key sectors (Text Figure 3). The dominance of electronics, machinery, vehicles and chemicals has increased over the past few decades, accounting for nearly 70 percent of total export value in 2023—up from 50 percent in 1995. Meanwhile, the share of service exports has consistently hovered around 15 percent since the mid-1990s. A more granular analysis reveals even greater export concentration: in 2023, Korea's top ten merchandise export items accounted for nearly half of total

¹ This includes the Asian Development Bank (ADB)'s Multi-Regional Input-Output (MRIO) database, the World Trade Organization (WTO) / Organization for Economic Cooperation and Development (OECD)'s Balanced Trade in Services dataset, the WTO's Digitally Delivered Trade in Services dataset, Harvard Growth Lab's Atlas of Economic Complexity, several datasets from the United Nations Conference for Trade and Development (UNCTAD), and domestic sources (Bank of Korea).

goods exports value compared to 40 percent in 1995. According to common concentration measures,² Korea demonstrates a high level of goods export concentration relative to other AEs. Although Korea's overall export prices are less volatile than global averages, key products, such as semiconductors and steel products, are subject to significant price volatility.

Text Figure 3. Product Concentration



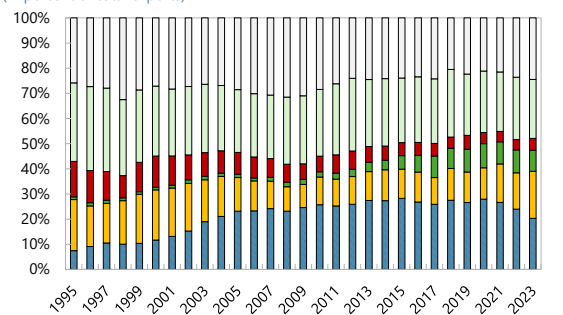
6. Korea's exports of goods are also highly concentrated in a few key destinations, which also account for the majority of Korea's foreign direct investment (FDI) (Text Figure 4). In 2023, more than half of Korea's exports of goods were directed to the Chinese mainland (20 percent), the United States (19 percent), and ASEAN countries (17 percent). Korea's export market concentration is relatively high compared to peers. While this concentration has remained high over the past three decades, the composition of export markets has shifted, with the Chinese mainland and Vietnam rising in prominence and the relative shares of the US and Japan declining. Between 2018 and 2024, Korean exports to the US and ASEAN rose sharply, while exports to the Chinese mainland declined, with US-China trade tensions contributing to these trends (Fajgelbaum et al. 2023, Dang et al. 2023, Chung et al. 2024). Korea's key export destinations are also the leading

² The Theil index can measure both export concentration in the basket of exported goods (product concentration, Text Figure 4) and in the set of export markets of an individual economy (market concentration, Text Figure 5). The Herfindahl-Hirschman index is a measure of the degree of product concentration (Text Figure 4). It is normalized, ranging between 0 and 1. In both cases, higher values indicate a higher degree of concentration, or lower export diversification.

recipients of its outward FDI—the Chinese mainland, the US and ASEAN countries received about half of total FDI in 2023. This may suggest that Korean factories depend on Korean-imported intermediate goods for production – consistent with customs data indicating that approximately 85 percent of Korea’s exports comprise of intermediate inputs (e.g. semi-conductors, car parts) and capital goods.

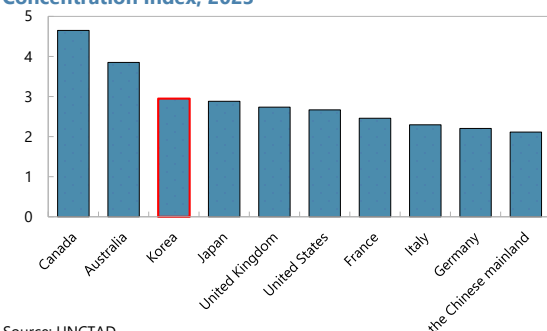
Text Figure 4. Market Concentration

Korea: Export Destinations
(In percent of total exports)

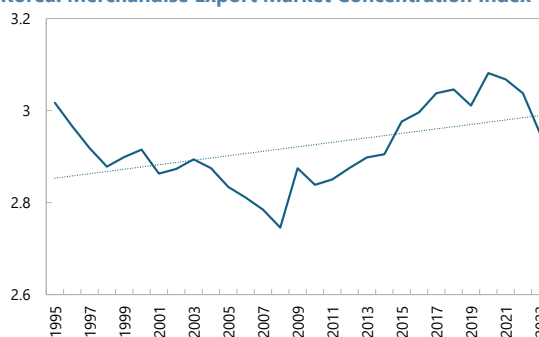


Sources: Growth Lab at Harvard University; and IMF staff calculations.

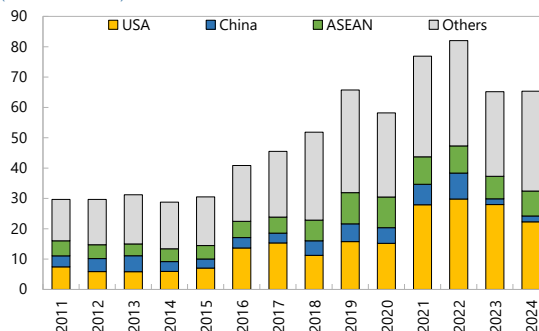
Selected Economies: Merchandise Export Market Concentration Index, 2023



Korea: Merchandise Export Market Concentration Index



Korea: Outward FDI by Destinations
(In billions of USD)



Sources: Korean Eximbank; and IMF staff calculations.

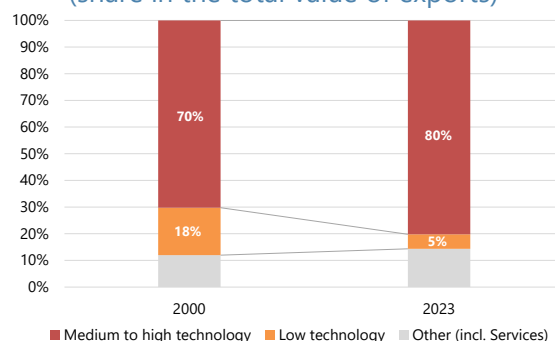
Export Sophistication

7. Higher export sophistication—defined as the technological complexity of a country’s exports—reflects a stronger ability to produce and export high-value goods. These high-value goods often require the development or acquisition of complex know-how, achievable by only few economies. Sophisticated export sectors are especially likely to drive economic growth, with broad-based benefits more likely when the economy is liberalized, the exchange rate is not overvalued, and information flows are good (Anand et al. 2012). Higher export sophistication typically results from a shift toward new, more sophisticated sectors, and/or an increase in the complexity of products within existing export sectors.

8. Korea has recorded the highest export sophistication gains over the past three decades, making its product space one of the most technologically advanced in the world (Text Figures 5 and 6).

While higher-technology manufacturing already accounted for the majority of Korea's exports in 1995, that share grew rapidly in the 2000s, as Korea moved further away from low-technology manufacturing, such as textiles, apparel and home goods, into more advanced manufacturing, such as electronics and machinery. As a result, the economic complexity of Korea's exports—which expresses the diversity and sophistication of the productive capabilities embedded in its exports, as measured by Harvard Growth Lab's Economic Complexity Index—has gradually increased since the mid-1990s, consistently ranking among the global top five since 2015. Korea has recorded the largest gains in economic complexity over the past three decades and remains one of the few AEs to have achieved such substantial progress.

Text Figure 5. Composition of Exports
(share in the total value of exports)

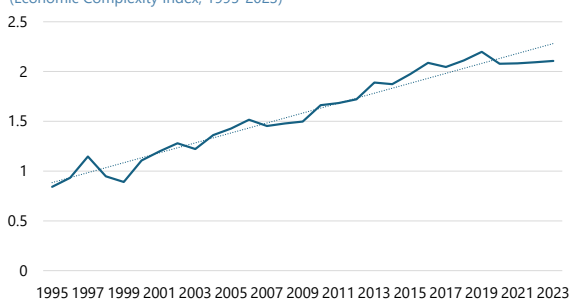


Sources: Asian Development Bank; and IMF staff calculations.

Text Figure 6. Export Sophistication and Complexity

Korea: Exports' Economic Complexity

(Economic Complexity Index, 1995-2023)

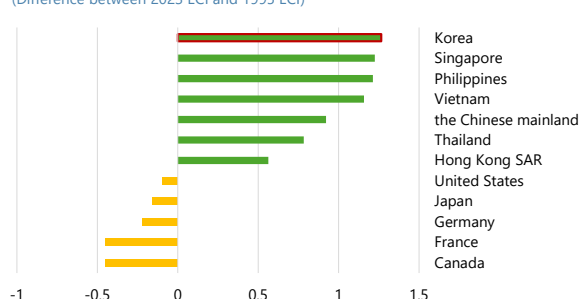


Sources: Growth Lab at Harvard University; and IMF staff calculations.

Economic complexity is a measure of the knowledge in a society as expressed in the products it makes. The economic complexity of a country is calculated based on the diversity of exports a country produces and their ubiquity, or the number of the countries able to produce them (and those countries' complexity).

Select Economies: Gains in Exports' Economic Complexity

(Difference between 2023 ECI and 1995 ECI)

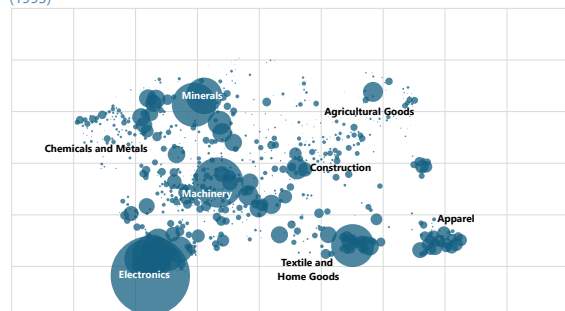


Sources: Growth Lab at Harvard University; and IMF staff calculations.

Economic complexity is a measure of the knowledge in a society as expressed in the products it makes. The economic complexity of an economy is calculated based on the diversity of exports an economy produces and their ubiquity, or the number of the economies able to produce them (and those economies' complexity).

Korea: Export Product Space

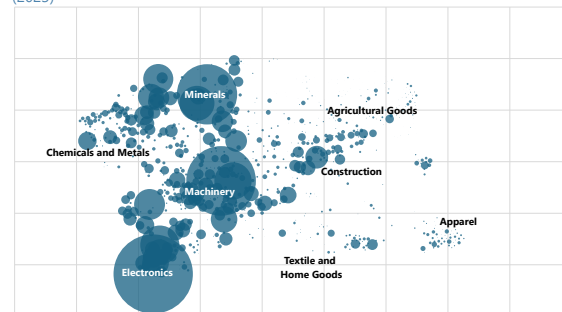
(1995)



Sources: Growth Lab at Harvard University; and IMF staff calculations. Distances between products represent their relatedness based on whether products are co-exported by countries. A larger bubble represents a larger share in total exports of goods.

Korea: Export Product Space

(2023)



Sources: Growth Lab at Harvard University; and IMF staff calculations. Distances between products represent their relatedness based on whether products are co-exported by countries. A larger bubble represents a larger share in total exports of goods.

Integration in Global Value Chains

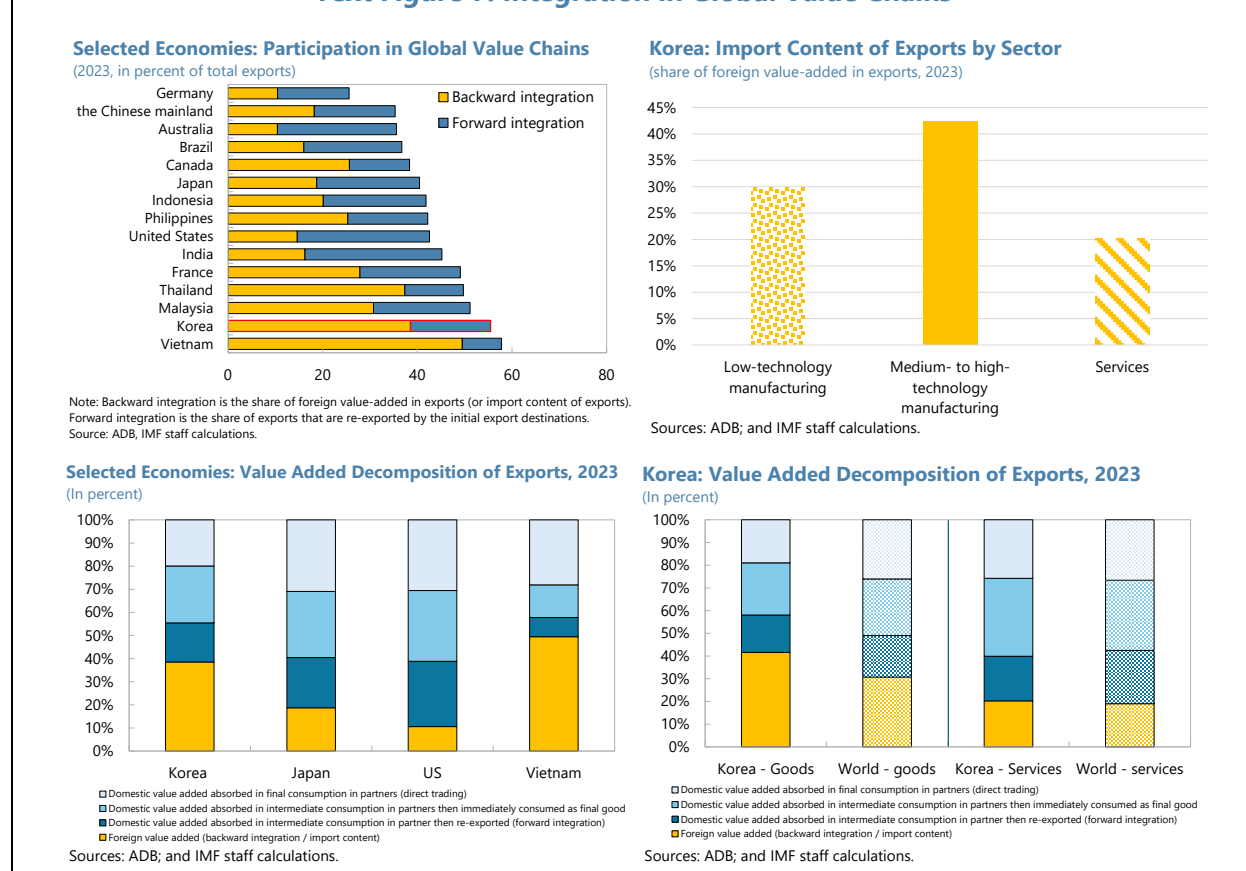
9. High integration in global value chains (GVCs) is typically associated with productivity and efficiency gains, but it can also amplify the transmission of supply and demand shocks and negatively impact domestic value chains. In AEs, participation in GVCs allows access to cheaper and more varied intermediate inputs and offers opportunities for knowledge diffusion and economies of scale (Baldwin and Lopez-Gonzalez, 2013; Égert, 2017), contributing to higher productivity at both the industry and firm level (Amador and Cabral, 2015) and to lower consumer prices, benefiting lower-income households in particular (Fajgelbaum and Khandelwal, 2016). Yet, integrating in GVCs increases dependency on imports and exposure to foreign demand shocks and supply disruptions, particularly in the case of chokepoints in the value chain from a limited range of buyers or suppliers (Crowe and Rawdanowicz, 2013; Schwellnus et al. 2023). Given high interdependence and interconnectedness, GVCs tend to accelerate the transmission of economic shocks (Angelidis and Varsakelis, 2023). In addition, the replacement of domestically produced inputs by imported ones can result in the loss of legacy value chains, with negative effects on growth and labor, at least in the short run.

10. The level of participation in GVCs can be assessed by decomposing exports according to their value-added components. Based on a methodology developed by Koopman et al. (2010), gross exports can be decomposed into two broad components: (i) the foreign value-added embedded in exports—also called backward integration—which can be interpreted as the import content of exports; and (ii) the domestic value-added in exports. This can be further decomposed into how the product gets utilized in the destination country after it is exported—either as final consumption, or as an intermediate input for another product, which can then be consumed, returned to the country of origin, or re-exported to a third country. That latter portion is called forward integration. The sum of forward and backward integration is a measure of GVC participation.

11. Korea is one of the most integrated countries in global value chains, driven by the high import contents of its exports (Text Figure 7). Korea relies heavily on imported inputs from other countries—raw materials, components—to achieve the production of its exports, which means that Korean exports have a high embedded share of foreign value-added. Backward integration of Korea's exports is among the highest in the world, explained mostly by the high import content of medium- to high technology goods, which represent the bulk of Korea's exports. The import content of service exports is, however, at par with the global average. Korea's high backward integration also means that the contribution to growth via net exports is somewhat lower, as opposed to goods and services that rely more on domestic intermediate inputs. On the other hand, forward integration of Korea's exports is among the lowest, suggesting that Korea's position in the GVCs is rather downstream, or close to the final consumer. This is partly a function of Korea's relatively small size, which limits the ability to generate intermediate inputs domestically, but also of Korea's strategic production model as a manufacturing powerhouse producing complex high-tech final goods reliant on many imported parts. This makes Korea's exports relatively more vulnerable to

domestic consumption shocks in its key trading partners, but also relatively less vulnerable to trade tensions which could lead to disruptions in re-export arrangements.

Text Figure 7. Integration in Global Value Chains

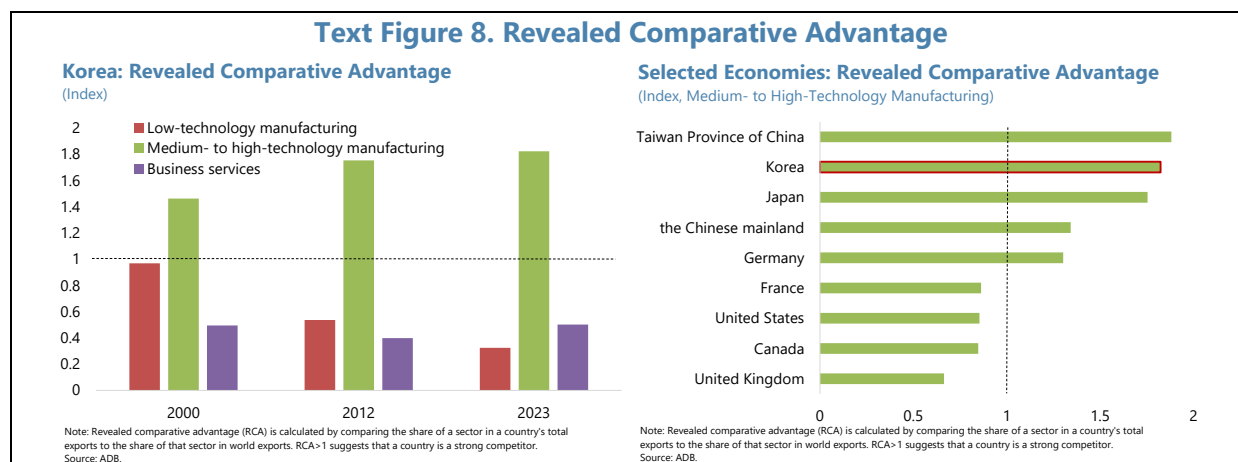


C. Enhancing the Resilience of the Export Growth Engine

Goods Exports: Maintaining the Technological Edge

12. Given the complexity of its product space, Korea's exports-driven growth opportunities depend on sustained innovation and AI adoption (Text Figure 8). Korean exporters have continuously increased their competitiveness in higher-technology goods, as illustrated by Korea's high and rising revealed comparative advantage over the past three decades. Going forward, maintaining competitiveness will hinge on the ability to develop new goods and to enhance production processes. Given that Korea is currently at the technological frontier, Korean companies are in a very good position to leverage the technological expertise and know-how acquired over the years to innovate and produce high-technology goods. Yet, government policies can be beneficial to sustain innovation and support broad-based productivity and efficiency gains. Interventions with high multiplier effects include public research funding—particularly for fundamental research, which can have high spillover effects on the private sector—as well as R&D tax incentives and research grants, especially for startups. Government policies can also help harness

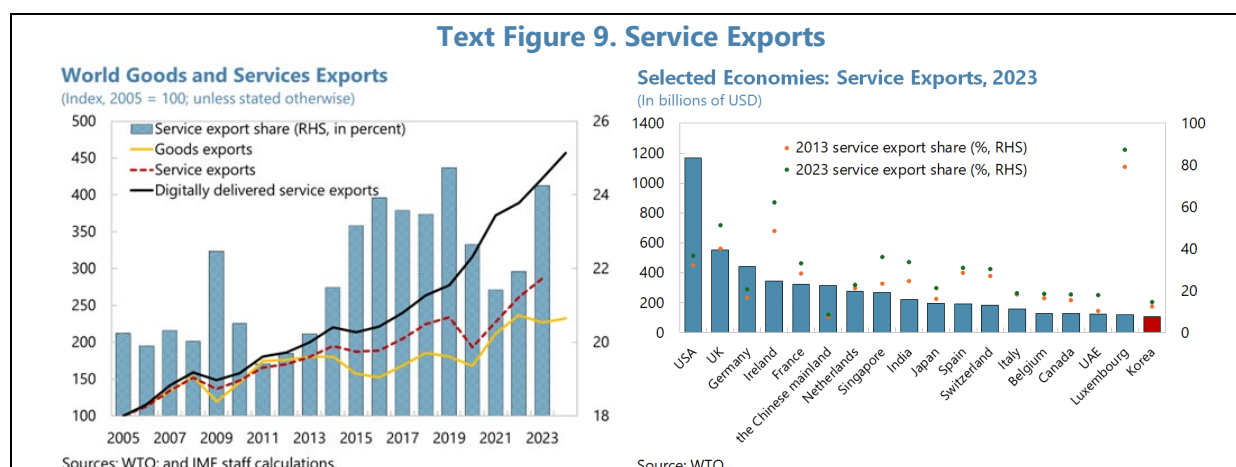
the potential of AI. In Korea, AI adoption could lead to significant medium-term productivity gains, although these benefits may primarily be concentrated among larger, more mature firms (Chang et al. 2025). While AI adoption and usage by Korean firms is rapidly rising, particularly in larger and younger companies with stronger technological capacities, supporting AI preparedness in smaller firms and increasing labor market flexibility (to allow firms to rapidly adapt to AI-driven changes) could help support broad-based productivity gains and help maintain competitiveness, including for smaller exporters.



Service Exports: Unlocking the Potential

13. Service exports have the potential to become a strong and resilient growth engine for Korea. Compared to goods, services typically have lower import content (Text Figure 7)—relying more on domestic inputs and expertise (with the notable exception of finance). This could result in a higher contribution to growth through net exports, at least in the short run. Additionally, service exports, particularly traditional ones, also tend to be more resilient to geoeconomic fragmentation. Whereas the growth of global goods trade has slowed down, service trade, particularly digitally delivered services, has expanded at a faster pace since the 2010s. The WTO projects that the share of services in global trade will increase by 50 percent in 2040 compared to 2019 due to advanced digital technologies, demographic changes, and rising incomes (WTO, 2019).

14. Korea service exports remain low (Text Figure 9). Unlike the manufacturing sector, where Korea ranks as the 8th largest exporter, its service exports place 18th globally as of 2023. While manufacturing powerhouses such as Japan and Germany have steadily increased their shares of service exports, reflecting the growing convergence between manufacturing and services, Korea's service exports account for only 15 percent of total exports. Korea has continued to run a persistent service trade deficit since 2000.



15. Leveraging its technological advancement and cultural appeal, Korea has huge potential to transform intellectual service exports into leading export items (Text Figure 10).

Traditional services sectors such as transportation, travel, and construction have long been predominant, accounting for around 60 percent of total service before the COVID-19 pandemic. However, their share has declined in recent years to less than half in 2024, due to the concurrent rise of intellectual services—including charges for the use of intellectual property, information and communication services, cultural and leisure services³—and other business services, such as technology and trade-related services and management consulting, driven by the expansion of digitally delivered services. While still relatively low compared to leading service exporters such as the US, the UK, and India, Korea's exports of intellectual service are growing rapidly.

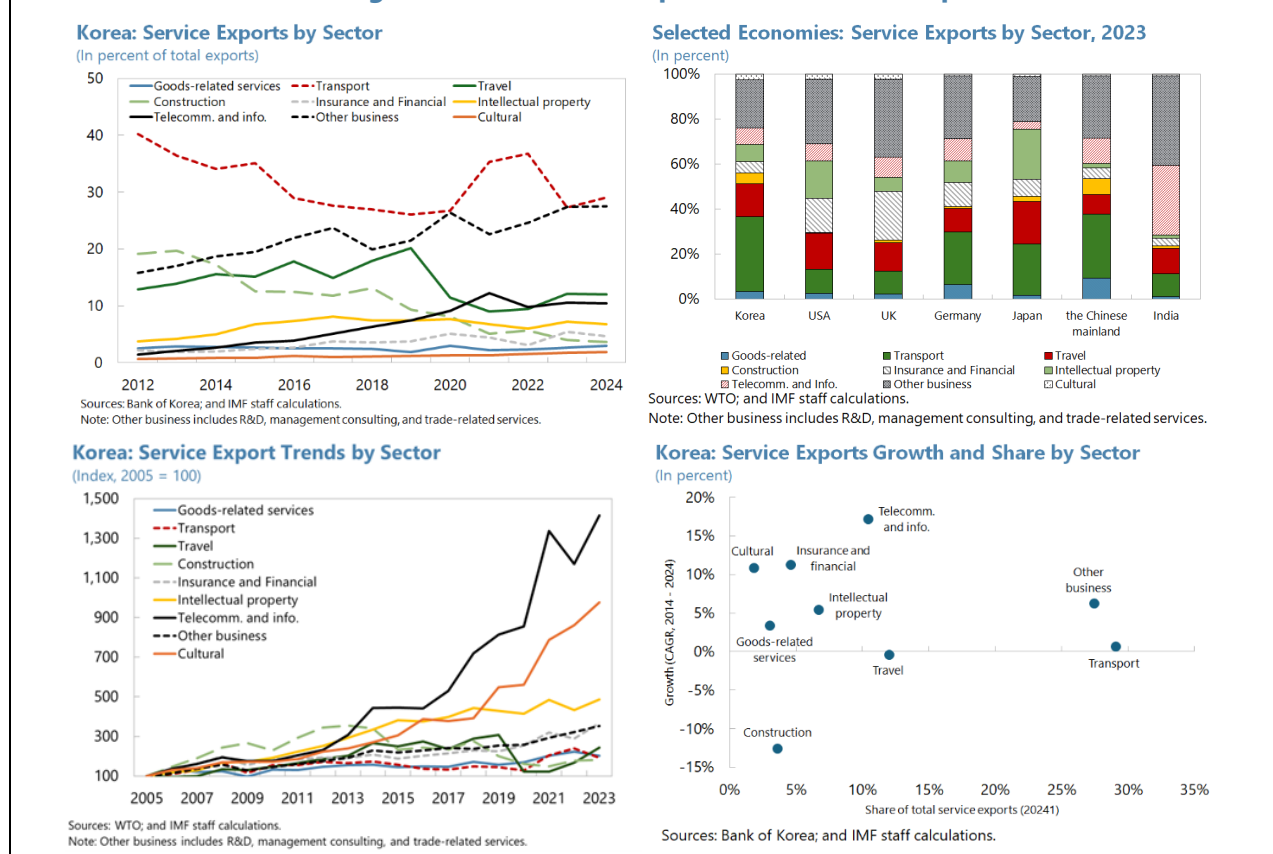
16. Services embedded in manufacturing represent a promising sector for Korea to enhance its competitiveness in intellectual service exports. The integration of services into manufacturing, commonly referred to as 'servicification', has accelerated in recent years, driven by rapid digitalization and the expansion of the platform economy.⁴ Manufacturing powerhouses such as Germany, Japan, and the Chinese mainland are also expanding their service exports through the integration of services into manufacturing. In Korea, this trend is particularly evident in major export sectors such as electronics and automobiles. Expanding R&D on the convergence between services and manufacturing and easing regulations on innovative business models could facilitate further integration of services into the exports of manufacturing firms. Given that innovation in

³ Cultural and leisure services include multimedia production services (such as film, radio, and television program production), performance and exhibition-related services (such as musicals, performing arts, art exhibitions, and other related services), and other personal, cultural, leisure, and entertainment services (such as visits to museums or cultural heritage sites).

⁴ The servicification of manufacturing means that the manufacturing sector is increasingly relying on services, whether as inputs, as activities within firms or as output sold bundled with goods. Examples include the adoption of smart factory technologies in production processes and the introduction of sharing and subscription models in distribution and sales.

manufacturing demands a highly skilled workforce, investing in human capital would help accelerate servicification.

Text Figure 10. Sectoral Composition of Service Exports



17. Globally competitive and appealing cultural content (such as K-pop and K-drama) has the potential to become a leading export item (Text Figure 11). According to a survey conducted by the Korean government, the global favorability toward Korean cultural content has significantly increased over the past decade, reaching 70 percent of respondents since 2019.⁵ Reflecting this trend, its cultural content exports grew at an average annual rate of 16 percent from 2020 to 2024, with K-drama ranking as the second most-watched genre (with 10 percent share) on the leading global streaming platform, trailing only U.S. content, and K-pop rising in global music charts, including in the U.S. To transform this potential into sustainable growth, substantial investment in cultural industries is needed. Strengthening competitiveness will require building infrastructure such as cultural clusters, expanding public financing, supporting the use of advanced technologies such as AI through R&D, and promoting international cooperation. Given the recent trend in the global content market, where revenue is increasingly generated through intellectual property (IP), promoting IP creation and securing its ownership has become important. The new

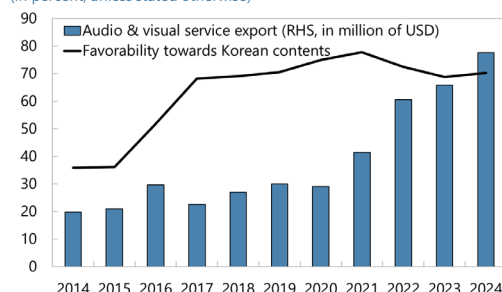
⁵ The Ministry of Culture, Sports and Tourism of Korea and the Korean Foundation for International Cultural Exchange have conducted the Global Hallyu (K-wave) Survey since 2012 every year to support cultural industries. In 2024, The survey was conducted online with 26,400 respondents across 28 countries.

administration's vision to elevate Korea into a top 5 global soft power leader is welcome, which will contribute to the diversification and resilience of Korea's export.

Text Figure 11. Cultural Contents Exports

Korea: Cultural Content Exports

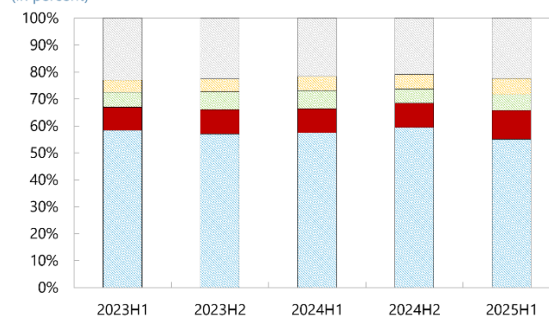
(In percent; unless stated otherwise)



Sources: Korean Foundation for International Cultural Exchange; and Bank of Korea.
Note: Favorability refers to the share of annual survey respondents who selected 4 ("liked") or 5 ("liked very much") on a 5-point scale when rating Korean contents.

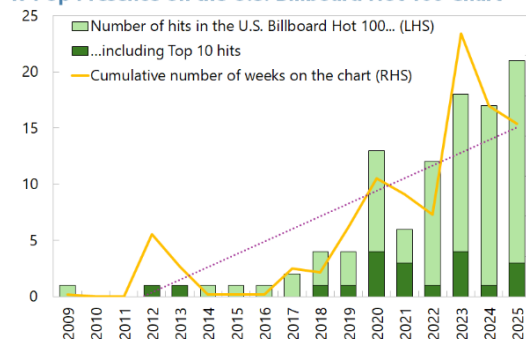
Selected Economies: Netflix Viewing Hours by Show Origin

(In percent)



Sources: FlixPatrol; and IMF staff calculations.

K-Pop Presence on the U.S. Billboard Hot 100 Chart



Note: Based on data collected as of August 20, 2025.
Sources: Billboard; and IMF staff calculations.

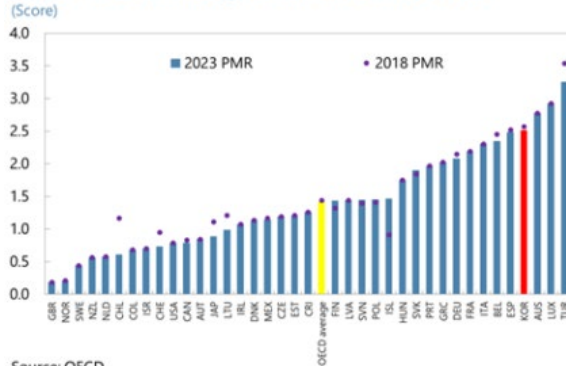
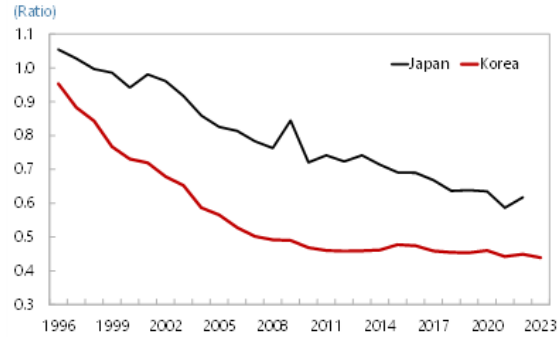
Selected Economies: Global Licensing Revenues

(In billions of USD)



Sources: 2024 Global Licensing Industry Study (Licensing International); and IMF staff calculations.

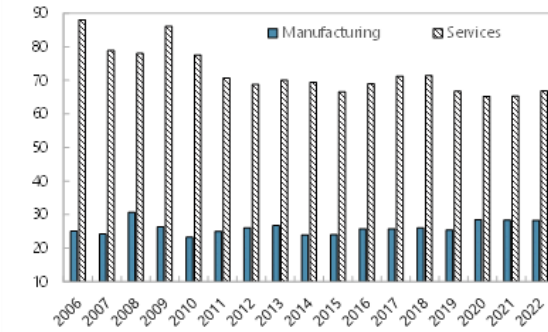
18. More fundamentally, addressing key bottlenecks, particularly those related to productivity and the regulatory environment, is essential to support the emergence of service exports as a durable growth engine (Text Figure 12). Enhancing the competitiveness of the services sector is a prerequisite for developing it into a key export industry. Korea's service sector productivity stood at only 72 percent of the OECD average in 2019, and investment in service-related R&D remains limited – accounting for just 12.3 percent of total private R&D in 2021 and 5.8 percent of the projected government R&D budget for 2025. Scaling up investment in services R&D would help enhance the sector's productivity and innovation capacity. According to the OECD's Product Market Regulation Indicator, Korea maintains relatively high entry barriers in the service sector compared to the OECD average. Easing these regulatory constraints for digitally enabled new ventures and further opening up the service market would help maximize pro-competitive gains and technological spillovers (IMF, 2024). Government support programs, including export financing, which currently focus predominantly on goods exporters (over 80 percent), should be further extended to better support service exporters.

Text Figure 12. Service Export Bottlenecks**OECD PMR: Business Operations in Service Sectors****Productivity in Service Sector Relative to Manufacturing**

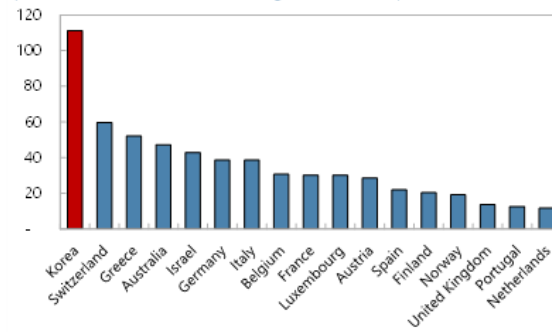
3 Note: productivity is measured by sector GVA divided by number of employed labor

Service Sector Efficiency Remains Low

(Output losses, in percent of efficient output level)

**Productivity Gap between Large Firms and SMEs in 2021**

(Difference in value-added between large firms and SMEs, thousands of US dollars)

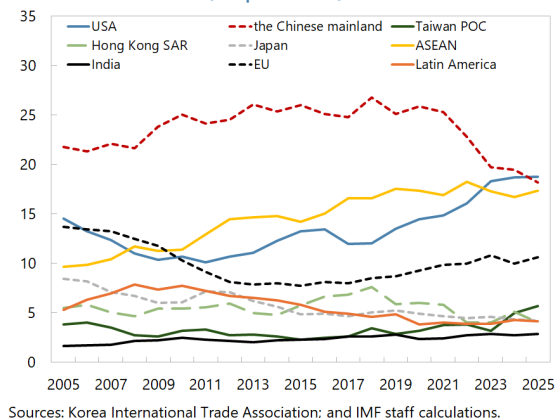


Opening New Markets and Preserving Existing Ones

19. Diversifying trading partners by developing trade relationships with a wider range of countries can help maintain a more resilient trade network. Korea has actively contributed to global and regional trade cooperation and has 22 FTAs in effect with 59 countries as of 2025, covering 85 percent of the global GDP. In the wake of greater trade policy uncertainty, deeper economic integration through new and upgraded FTAs could help increase the space for the private sector to diversify supply chains, make them more resilient and minimize potential disruptions. Korea's continued trade cooperation with its major trading partners based on mutual interest—including by strengthening partnerships in high-tech sectors and increasing FDI—is essential for sustaining robust export growth. In addition, there is significant scope to strengthen regional trade integration in Asia, which is lagging relative to other regions. Further integration, such as by reducing non-tariff barriers, could bring significant growth benefits to the region, including Korea (IMF, 2025b). Through further trilateral economic cooperation within East Asia and high-standard bilateral agreements with individual ASEAN countries, Korea could foster stronger and more stable trade linkages with emerging export markets in the region.

20. The diversification of export products can help unlock a wider range of export destinations. While Korea's exports have become more diversified in recent years (Text Figure 4) to the FDI-related countries it is notable that exports to the EU, which are less tied to Korea's FDI, have also been on the rise in 2025 (Text Figure 13). This reflects Korea's shift in exports toward consumer goods, beyond the traditional focus on intermediate and capital goods. In addition to leveraging its advanced technological know-how to continue innovating within its highly complex export product space (Text Figure 6), Korea has the potential to develop other major goods export sectors, such as the defense industry, which has gained global competitiveness, and food and cosmetic products, where exports are rising alongside Korea's soft power, which could also help unlock new export markets.

Text Figure 13. Export by Destination
(in percent)



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Annex X. Data Issues

Table 1. Korea: Data Adequacy Assessment for Surveillance

Data Adequacy Assessment Rating 1/							
A							
Questionnaire Results 2/							
Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	A	A	A	A	A	A	A
Detailed Questionnaire Results							
Data Quality Characteristics							
Coverage	A	A	A	A	A		
Granularity 3/	A		A	A	A		
			A		A		
Consistency			A	A		A	
Frequency and Timeliness	A	A	B	A	A		
Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank. 1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics. 2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF <i>Review of the Framework for Data Adequacy Assessment for Surveillance</i> , January 2024, Appendix I). 3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.							
A	The data provided to the Fund are adequate for surveillance.						
B	The data provided to the Fund have some shortcomings but are broadly adequate for surveillance.						
C	The data provided to the Fund have some shortcomings that somewhat hamper surveillance.						
D	The data provided to the Fund have serious shortcomings that significantly hamper surveillance.						
Rationale for staff assessment. Korea's data are adequate for surveillance. While the quality and accuracy of fiscal statistics is good, the frequency and timeliness of fiscal data could be further enhanced. In particular, the time lag for publication of general government data, which is available with a delay of approximately 11 months, could be reduced.							
Changes since the last Article IV consultation. The time lag for publication of general government data has been reduced to 11 months, from 14 months in the 2024 Article IV staff report, enabling more timely analysis and improving the formulation of policy advice, although still falling short from GFSM 2014 standards (recommending a delay of no more than three quarters).							
Corrective actions and capacity development priorities. Not applicable.							
Use of data and/or estimates in Article IV consultations in lieu of official statistics available to staff. Staff does not use any data and/or estimates in the staff report in lieu of official statistics.							
Other data gaps. Not applicable.							

Table 2. Korea: Data Standards Initiatives

Korea subscribes to the Special Data Dissemination Standard (SDDS) since September 1996 and publishes the data on its National Summary Data Page. The latest SDDS Annual Observance Report is available on the Dissemination Standards Bulletin Board (<https://dsbb.imf.org/>).

Table 3. Korea: Table of Common Indicators Required for Surveillance
As of October 16, 2025

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data ⁶	Frequency of Reporting ⁶	Expected Frequency ^{6,7}	Korea ⁸	Expected Timeliness ^{6,7}	Korea ⁸
Exchange Rates	16-Oct-25	16-Oct-25	D	D	D	...	...	...
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	Sep-25	Oct-25	M	M	M	M	1W	1M
Reserve/Base Money	Aug-25	Oct-25	M	M	M	M	2W	NLT 2W
Broad Money	Aug-25	Oct-25	M	M	M	M	1M	
Central Bank Balance Sheet	Aug-25	Oct-25	M	M	M	M	2W	NLT 2W
Consolidated Balance Sheet of the Banking System	Aug-25	Oct-25	M	M	M	M	1M	
Interest Rates ²	16-Oct-25	16-Oct-25	D	D	D	...	...	...
Consumer Price Index	Sep-25	Oct-25	M	M	M	M	1M	1W
Revenue, Expenditure, Balance and Composition of Financing ³ —General Government ⁴	2023	Dec-24	A	A	A	A	2Q	NLT 5Q
Revenue, Expenditure, Balance and Composition of Financing ³ —Central Government	Aug-25	Oct-25	M	M	M	M	1M	NLT 45D
Stocks of Central Government and Central Government-Guaranteed Debt ⁵	Aug-25	Oct-25	M	M	Q	Q	1Q	1Q
External Current Account Balance	Aug-25	Oct-25	M	M	Q	M	1Q	2M
Exports and Imports of Goods and Services	Aug-25	Oct-25	M	M	M	M	8W	NLT 3W
GDP/GNP	Q2 2025	Q3 2025	Q	Q	Q	Q	1Q	NLT 10W
Gross External Debt	Q2 2025	Q3 2025	Q	Q	Q	Q	1Q	1Q
International Investment Position	Q2 2025	Q3 2025	Q	Q	Q	Q	1Q	1Q

¹ Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.

² Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

³ Foreign, domestic bank, and domestic nonbank financing.

⁴ The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

⁵ Including currency and maturity composition.

⁶ Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual; ("SA") semiannual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than.

⁷ Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan.

⁸ Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (<https://dsbb.imf.org/>). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "...".



REPUBLIC OF KOREA

October 31, 2025

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION —INFORMATIONAL ANNEX

Prepared By

Asia and Pacific Department

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FUND RELATIONS

(As of September 30, 2025)

Membership Status: Joined August 26, 1955; Article VIII

General Resources Account

	SDR Million	Percent Quota
Quota	8,582.70	100.00
Fund holdings of currency (exchange rate)	6,357.41	74.07
Reserve tranche position	2,225.33	25.93
Lending to the Fund		

SDR Department

	SDR Million	Percent Allocation
Net cumulative allocation	10,630.58	100.00
Holdings	11,523.06	108.40

Outstanding Purchases and Loans

None

Financial Arrangements (In SDR Million)

Type	Date of Arrangement	Expiration Date	Amount Approved	Amount Drawn
Stand-by	Dec. 04, 1997	Dec. 03, 2000	15,500.00	14,412.50
Of which SRF	Dec. 18, 1997	Dec. 17, 1998	9,950.00	9,950.00
Stand-by	Jul. 12, 1985	Mar. 10, 1987	280.00	160.00
Stand-by	Jul. 08, 1983	Mar. 31, 1985	575.78	575.78

Projected Obligations to Fund¹

(SDR Million; based on existing use of resources and present holdings of SDRs)

	2025	2026	2027	2028	2029
Principal	0.0	0.0	0.0	0.0	0.0
Charges/interest	0.0	0.05	0.05	0.05	0.05
Total	0.0	0.05	0.05	0.05	0.05

1/ When a number has overdue financial obligations outstanding for more than three months, the amount of arrears will be shown in this section.

Exchange Rate Arrangement

The de jure exchange rate arrangement is free floating, and the de facto exchange rate arrangement is floating. From 1997–2008, the exchange rate was classified as “free floating” (“independently

floating” under the older classification system). Korea maintains exchange restrictions for security reasons, in accordance with UN Security Council Resolutions, which have been notified to the Fund pursuant to Executive Board Decision No. 144(52/51).

Recent FSAP and ROSC Participation

An FSAP was concluded in March 2020. The Financial System Stability Assessment report has been published (Country Report No. 20/120) and is available on the web at:

<https://www.imf.org/-/media/Files/Publications/CR/2020/English/1KOREA2020001.ashx>

STA: Discussions on Korea’s data dissemination practices against the IMF’s Special Data Dissemination Standard (SDDS) were held in Seoul during December 2009, and a Report on the Observance of Standards and Codes (ROSC) was drafted and finalized in July 2010. The report has been published and is available on the web through the link:

<http://www.imf.org/external/pubs/ft/scr/2010/cr10229.pdf>

Technical Assistance

STA: A technical assistance mission on government finance statistics took place in Seoul during the period November 8–19, 2010.

MCM: Remote technical assistance on foreign exchange reserves management was conducted in November 2020.

FAD: Remote technical assistance on fiscal policies for achieving Korea’s 2020 climate mitigation goals in November 2021.

FAD: Technical assistance for improving the forecasting accuracy of corporate income and capital gains taxes in June 2024.

**Statement by Mark Blackmore, Alternative Executive Director for Korea,
Jae Woo Oh, Senior Advisor to Executive Director, and
Seungmoon Park, Advisor to Executive Director
November 19, 2025**

On behalf of the Korean authorities, we would like to thank Mr. Rahul Anand and his team for the candid and constructive discussions during the 2025 Article IV consultations. The authorities value staff's continuous engagement and broadly concur with staff's assessment of the economic outlook and policy recommendations.

Recent Development and Outlook

The Korean economy is rebounding strongly, with broad-based momentum. Consumption sentiment continues to improve, supported by the timely implementation of the supplementary budgets and growing confidence in the new administration's economic agenda. Job growth remains robust—particularly in the service sector—and is expected to exceed earlier projections. Exports are outperforming expectations, led by semiconductors. As of September, construction investment—long subdued—recorded its largest gain in 20 months, while facility investment posted its biggest increase in seven months. Financial markets remain stable, with the Korea Composite Stock Index (KOSPI) recently reaching a historic high.

Recent developments further reinforce the improved near-term outlook. In the third quarter, real GDP grew by 1.2 percent¹, exceeding earlier projections, with private consumption recording the strongest increase in three years. Against this backdrop, the authorities view an annual growth rate of around 1 percent as achievable this year, with growth expected to accelerate in 2026², supported by accommodative policies—including earlier rate cuts. At the same time, they acknowledge that the outlook remains subject to considerable uncertainties on both the upside and downside.

Inflation is expected to remain close to the 2 percent target this year and next. Thus far in 2025, inflation has hovered around 2 percent, reflecting subdued demand-side pressures and stable global oil prices. This trend is anticipated to continue into next year. Nonetheless, uncertainty persists due to weather conditions, and developments in global oil markets, which the authorities continue to monitor closely.

The authorities share staff's view that FX reserves, along with sizable net foreign assets, provide adequate buffers against potential shocks. As of end-October, FX reserves stood at 428.8 billion dollars, up from 415.6 billion dollars a year earlier despite recent market volatility.

¹ Growth rate (q/q, %) for 2025: (1Q) -0.2 (2Q) 0.7 (3Q, Advanced Estimate, Bank of Korea, October 28, 2025) 1.2

² Growth forecast for 2026: (Ministry of Economy and Finance, August) 1.8%, (Bank of Korea, August) 1.6%, (Korea Development Institute, November) 1.8%

The current account surplus rose significantly in the first half of 2025 and is now expected to exceed earlier projections³ for both this year and next, supported by favorable semiconductor market conditions and robust primary income balances. However, some moderation is anticipated in 2026 amid the broader impact of higher tariffs and ongoing global trade uncertainty. The authorities reaffirm that FX market intervention is limited to episodes of excessive volatility and disorderly movements in exchange rates, and is not intended to target any particular level.

The New Government's Economic Policy Priorities

The new administration has centered its policy agenda on revitalizing domestic demand and regional economies, while addressing long-standing structural challenges. In August, the government announced its Economic Growth Strategy, setting out key policy priorities aimed at building an innovation-driven, inclusive, and fair economy—anchored in a strong institutional framework and globally aligned economic infrastructure. To foster new growth momentum, the strategy includes accelerating AI transformation, while expanding investment and government support for cultural industries. Financial and FX market reforms will also continue, with a focus on improving capital allocation toward corporate investment and industrial innovation. To promote inclusive growth, the authorities will reallocate fiscal and administrative resources currently concentrated in the Seoul metropolitan area to regional areas and provide comprehensive support for strategic industries tailored to each region's strengths. The strategy is backed by the 2026 budget and implemented in close partnership with businesses, local governments, universities, and research institutions.

Korea recently concluded tariff negotiations with the United States. At the Korea–U.S. summit on October 29, the two sides reaffirmed the July announcement of the Korea Strategic Trade and Investment deal. On November 13, the two governments jointly released a [factsheet](#)⁴ outlining the details of the agreement. The deal clarifies the implementation of tariff reductions and includes 150 billion dollars of Korean investment in the shipbuilding sector approved by the United States. It also includes 200 billion dollars of additional Korean investment⁵ committed pursuant to the Memorandum of Understanding with respect to Strategic Investments (MOU), which was signed by representatives of the two governments on November 14. It is expected to

³ CA surplus (BoK, USD billion): (May → August projection) from 82 to 110 for 2025 / from 72 to 85 for 2026

⁴ <https://www.whitehouse.gov/fact-sheets/2025/11/joint-fact-sheet-on-president-donald-j-trumps-meeting-with-president-lee-jae-myung/>

⁵ The two governments have reached a mutual understanding that commitments in the MOU shall not be allowed to give rise to FX market instability in Korea. As trusted partners, they agree that Korea shall not be required to fund an aggregate amount greater than 20 billion dollars in any calendar year. Should it appear that the fulfillment of the commitments in the MOU may cause market instability, such as disorderly movements of Korean won, Korea may request an adjustment in the amount and timing of the funding, and the United States will, in good faith, give due consideration to such request.

reduce uncertainty for financial markets and the broader economy. The Korean government is committed to leveraging the deal as a catalyst for enhancing industrial competitiveness.

Monetary and Fiscal Policy

The Bank of Korea (BOK) has maintained its accommodative monetary policy stance to alleviate subdued domestic demand. Following the two rate cuts in late 2024, two additional rate cuts were made in February and May of this year, bringing the Base Rate down to 2.50 percent. Throughout this process, it has closely monitored financial stability conditions, including the effects of market stabilization measures on housing prices and on household debt, as well as exchange rate volatility. While the BOK will maintain its rate cut stance in view of prevailing economic conditions, it will continue to adjust the timing, size, and pace of further rate cuts based on incoming economic data.

The authorities remain firmly committed to achieving an appropriate balance between providing timely fiscal support and safeguarding long-term fiscal sustainability. They agree with staff that, given substantial fiscal space, accommodative policy is appropriate at this juncture. Fiscal resources will be deployed strategically to revive subdued economic activity, with a focus on high-impact and growth-enhancing investment. The 2026 budget proposal targets urgent priorities, including strategic investment to prepare for the AI era and stronger protection for vulnerable groups. It aims to deliver sustainable fiscal outcomes through efficient resource allocation—featuring record-high R&D spending alongside significant cuts to low-performing programs. To strengthen the income base of low-income households, the proposal also raises the standard median income and expands support for daytime activity assistance and job opportunities for persons with disabilities.

Comprehensive fiscal reforms are also underway. These include revenue mobilization, expenditure restructuring, rationalization of tax exemptions, and the strengthening of performance-based fiscal management. Although public debt remains sustainable, the authorities will proactively assess and manage medium- to long-term fiscal risks, particularly those stemming from aging-related spending pressures. Building on the third long-term fiscal outlook (2025~2065), the government will actively support further discussions in the National Assembly on pension reform and explore measures to mitigate fiscal risks associated with social security funds.

Financial Sector Policy

Systemic risks to financial stability remain low, with financial soundness indicators across banks and non-bank financial institutions well above regulatory thresholds. The authorities expect the household debt-to-GDP ratio—closely linked housing market dynamics—to

moderate, supported by tighter borrower-based macroprudential measures and new supply-side policies. They plan to expand public housing supply and encourage private participation through deregulation and enhanced legal and institutional support. Risks related to real estate project financing (PF) are being addressed through ongoing soft-landing measures and market-led restructuring. Comprehensive PF reform measures are being finalized by year-end. Financial authorities and regulatory agencies remain vigilant and stand ready to deploy contingency measures if needed, ensuring they are temporary and targeted.

The authorities reaffirm their commitment to advancing financial market reforms. Efforts are underway to modernize corporate governance and upgrade capital market infrastructure, aiming to address the persistent undervaluation of the domestic stock market and attract stable and sustained capital inflows. FX market reforms are advancing as planned in a phased manner. Following the extension of trading hours to 2:00 a.m., the authorities are preparing to introduce a 24-hour trading system and establish an offshore Korean won settlement mechanism, with detailed plans and timelines expected by year-end. They welcome staff's view that these reforms will strengthen the efficiency and resilience of the domestic currency market.

Structural Policies

Enhancing productivity remains a key priority. The authorities concur with staff that productivity in service sectors—particularly among small and medium enterprises (SMEs)—can be improved through regulatory easing, stronger competition, and better-targeted government support. Promoting AI adoption and digital transformation is central to boosting labor productivity and creating quality jobs for youth and women, supported by greater labor market flexibility and expanded training and reskilling programs. The government is also broadening region- and SME-specific job-matching initiatives to improve labor market outcomes.

Building a fair and safe labor market is a parallel priority. The authorities are working to develop a fair wage system, narrow wage gaps between large firms and SMEs, enhance employment stability for vulnerable groups, and improve industrial safety. Efforts to strengthen the social safety net and reduce living costs for low-income households are also being intensified.

Additional efforts are underway to address long-term challenges such as population aging and climate change. The authorities are responding proactively to demographic shifts through comprehensive, life-cycle-based support measures—including increased family-related budget spending, asset-building support for low-income youth, and expanded job opportunities for the elderly. On climate, the authorities are committed to accelerating the energy transition and achieving carbon neutrality. They recently confirmed the 2035 NDC target of reducing net emissions by 53–61 percent from 2018 levels—contributing to global efforts while serving as a

new driver of growth—and are preparing a long-term emission reduction roadmap for 2031–2049.

The authorities strongly support non-distortionary, open trade and adherence to WTO processes. In response to significant shifts in the global trade and supply chain landscape, they are undertaking comprehensive efforts to enhance external resilience and support business adaptation. These efforts include promoting service exports—particularly in cultural content and intellectual property—diversifying trade partners and supply sources, and providing urgent liquidity support to firms affected by higher tariffs. The authorities are also strengthening the preemptive and prudent management of economic security-related items and services, including through comprehensive vulnerability assessments, the buildup of strategic reserves, and enhanced early warning systems. All such measures remain fully aligned with global norms.